FINANCIAL HISTORY

THE MAGAZINE OF THE MUSEUM OF AMERICAN FINANCE

Alexander Hamilton as a Revolutionary Reformer

Queen of the Corporate Gadflies: Wilma Soss

Shadow Courts: The Tribunals that Rule Global Trade

ISSUE 119 | FALL 2016

An 1852 medal honoring Secretary of State Henry Clay that was struck by the U.S. Mint in nearly 30 ounces of solid California gold and was lovingly passed down through his family. The medal was sold in a record setting special auction of memorabilia relating to Abraham Lincoln.
Sold for: $346,000 | September 2016

A pair of gold cuff bracelets by Van Cleef & Arpels, personally given by Jacqueline Kennedy Onassis to Nina Straight, her step-sister and maid of honor when she married John F. Kennedy in 1953.
Sold for: $162,500 | September 2016

Exceedingly rare uncirculated rainbow $50 note-one of only 64 examples to exist.
Sold for: $223,250 | April 2016

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FINANCIAL HISTORY

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IN THIS ISSUE FEATURES

IN THIS ISSUE DEPARTMENTS

ON THE COVER

Hamilton in the Uniform of the New York Artillery, by Alonzo Chappel. See article, page 16.

Museum of the City of New York/Bridgeman Images

A Look Back, A Look Ahead

Message to Members

David J. Cowen | President and CEO

As we look back on 2016, there were many milestone moments for the Museum, including our largest exhibit, *Worth its Weight: Gold from the Ground Up*; our largest Gala, with over 425 attendees; and our largest financial donation, a final gift from our founder, John Herzog.

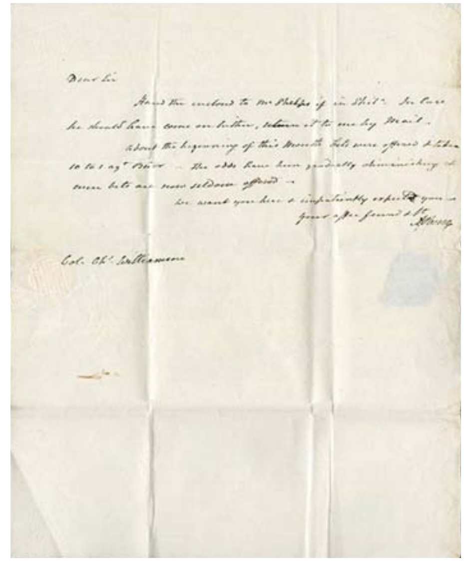
As we finalize this issue of our magazine, we also want to applaud our Board Chairman, Professor Richard Sylla, for his latest book, *Alexander Hamilton: The Illustrated Biography*. Dick has studied Hamilton his entire life and is the perfect author for this beautiful book. You can see a preview on page 16 of this magazine, and the book will make a great holiday gift for the Hamilton enthusiast on your list.

Our evening lecture series continues to feature well-known members of the financial community. Our final event of the 2016 season will be on November 30, when world renowned economist Kenneth Rogoff will discuss his latest book, *The Curse of Cash*. Rogoff is the Thomas D. Cabot Professor of Public Policy at Harvard University and was often in the public spotlight as the former Chief Economist at the International Monetary Fund (IMF).

Here now is a preview of 2017. We start with our Gala on February 1, which will feature two deserving honorees: the honorable Lawrence H. Summers, former Secretary of the Treasury and President of Harvard University, who will receive the Whitehead Award; and Joe Ricketts, Founder of TD Ameritrade and owner of the world champion Chicago Cubs, who will accept the Charles Schwab Financial Innovation Award. The Gala is our main fundraiser and a great opportunity for our members and friends to support the Museum at this critical juncture.

The Gold exhibit will close at the end of the year and will be replaced in early 2017 with three smaller exhibits. The first will feature the history of Wall Street architecture; many thanks to our friends at the Skyscraper Museum for their assistance in developing this exhibit. The second will feature dozens of custom Lucite deal toys, which are the memorabilia from equity or debt financing of companies. The third, called "Hamilton's Crew," will showcase artifacts and documents from the significant historic figures that are featured in the Broadway show.

The individuals profiled in this exhibit are the Marquis de Lafayette, John Laurens, Hercules Mulligan, Thomas Jefferson, James Madison, Elizabeth Schuyler Hamilton, Angelica Schuyler Church and, of course, Aaron Burr. The Burr section of the exhibit will feature one of the Museum's most exciting recent acquisitions, which is a letter signed by Burr and dated March 19, 1804. It refers to the April 1804 New York gubernatorial election. Burr lost that election and later took umbrage to comments which Hamilton made about him, and that led to the famous duel.



The Museum recently acquired this letter, signed by Aaron Burr, regarding the 1804 New York gubernatorial election.

We hope you enjoy this issue of our magazine, the second to be produced in a fully-digital format. We encourage you to share the issue widely with your friends and colleagues, and to subscribe for free online. While many of us still miss the printed magazine, one of the main benefits of a digital edition is the ability to share it much more easily, and at no cost to our readers.

We look forward to seeing many of you at our programs, events and exhibits in 2017. And we thank you, as always, for your continued support of the Museum and for your enthusiasm for our mission. $

NOV 5 1999

US District Court Judge Thomas Penfield Jackson finds that Microsoft is a monopoly, and the US Justice Department plans to enforce the breakup of the company.

NOV 10 1494

Corporate balance sheets and income statements trace their heritage to this day, as the first edition of Luca Pacioli's *Summa de Arithmetica, Geometria, Proportioni et Proportionalita* is printed in Venice.

MoAF Featured in *Hamilton's America* Documentary

On October 21, PBS premiered *Hamilton's America,* one of the most eagerly-anticipated films of the year. The documentary follows the development of the Broadway hit "Alexander Hamilton: An American Musical" from its roots in 2008 through 2016, weaving Hamilton's life story with that of the show's creator and star, Lin-Manuel Miranda.

The Museum began working with Alex Horwitz, the film's director (and Miranda's college roommate), on the documentary in 2014. The segment featuring the Museum can be seen towards the end of the film, as the show's stars Miranda (Alexander Hamilton) and Leslie Odom, Jr. (Aaron Burr) read aloud letters exchanged between Hamilton and Burr from the Museum's collection that led up to the duel in which Hamilton was killed.

David Cowen, the Museum's president, discusses the significance of these letters and allows the actors to hold the replica dueling pistols on display in the Alexander Hamilton Room. The scene culminates with Miranda and Odom, Jr. reenacting the duel alongside statues of the historical figures they portray in the show. The dueling statues had been on loan to the Museum for several years from the New-York Historical Society before being moved to The Public Theater, where "Hamilton" premiered.

Keen observers will notice the Museum's grand mezzanine exhibit hall was also the backdrop for the interview with former US Treasury Secretary Henry Paulson, shown earlier in the film.

For those who missed *Hamilton's America* when it originally aired, it can be viewed in its entirety on PBS's Great Performances website at: http://www.pbs.org/wnet/gperf/hamiltonfullfilm/5801/. $

Actors Lin-Manuel Miranda (Hamilton) and Leslie Odom, Jr. (Burr) re-enact the duel in the Museum gallery for the PBS documentary.

Deputy Director Kristin Aguilera and Dave White at the gala premier of *Hamilton's America*.

NOV 12 1999

President Bill Clinton signs into law the Gramm-Leach-Bliley Act, which essentially repeals the Glass-Steagall Act of 1933.

NOV 13 1878

The first telephones are installed on the trading floor of the NYSE, just over two years after Alexander Graham Bell invents them.

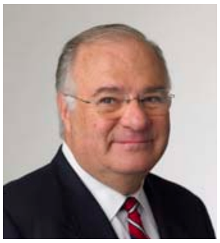
Museum to Honor Lawrence Summers and Joe Ricketts at 2017 Gala

The Museum will honor the achievements of financial leaders in both the public and private sectors with two important awards at its 2017 Gala on Wednesday, February 1. The Gala is the Museum's main annual fundraiser, with proceeds helping to support all aspects of the Museum's efforts to teach the relevance of finance to everyday life.

The Whitehead Award for Distinguished Public Service and Financial Leadership will recognize the significant contributions of Lawrence H. Summers, Former US Treasury Secretary and President *Emeritus* of Harvard University.

The Charles Schwab Financial Innovation Award recognizes individuals who have introduced new markets or new financial instruments to our financial system. Joe Ricketts, Founder and Former Chairman/CEO of TD Ameritrade, will be honored with this award for his technological innovations in online stock trading.

The 2017 Gala will begin with cocktails at the Museum at 6:30 p.m. and dinner at Cipriani Wall Street at 7:45 p.m. Please contact Jeanne Baker Driscoll, Director of Development, at jdriscoll@moaf.org or (212) 908-4694 to reserve a table or seat, or to make a contribution. $


Joe Ricketts


Lawrence Summers

MoAF CORPORATE AND FOUNDATION SUPPORT

The Museum gratefully recognizes the support of the following corporate funders during the past year. Their generosity helps advance our commitment to preserving, exhibiting and teaching the power and value of American finance.

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- Voya Financial
- Wells Fargo & Company
- William Penn Foundation

► For information about corporate or foundation support, please contact Jeanne Baker Driscoll, Director of Development at (212) 908-4694 or jdriscoll@moaf.org.

NOV 15 1971 The money-market mutual fund is born as the prospectus for the Reserve Fund, created by Bruce Bent and Henry Brown, becomes effective.

NOV 25 1835 Andrew Carnegie is born in Dunfermline, Scotland. In 1901, he becomes the world's richest man by selling US Steel to J.P. Morgan for $400 million

Museum Tracks Investor Sentiment in the Run-up to the Election with "Your Vote. Your Money."

On October 27, the Museum hosted a program discussing the impact of the election on the financial markets, both from the perspective of the individual investor and the larger institutional investors. The program was sponsored by Investopedia and Strategas.

Museum President David Cowen opened the program highlighting some of the unique aspects to this particular presidential election year. He mentioned the many conflicting theories about how financial markets react during an election cycle. With this as background, he indicated the evening's program was an opportunity to bring together a group of experts to share their thoughts about how investors are actually reacting to the current roller coaster ride known as the 2016 presidential election.

The program began with a fireside chat between Strategas CEO and Chief Investment Strategist Jason DeSena Trennert and President and Head of Quantitative Research Nicholas Bohnsack. Their conversation focused on the increased emphasis on policy — legislative, monetary and regulatory — in the presidential candidates' platforms, and its impact on the markets and investment decisions of institutional and individual investors. They also discussed which sectors of the economy could benefit from the election of each candidate.

Following the fireside chat, leaders in financial and political data analysis, as well as media/communications, participated in a panel discussion that explored the impact of this turbulent election year on investor sentiment and market activity. The panel was moderated by Museum board member Consuelo Mack, Executive Producer & Managing Editor of *Consuelo Mack WealthTrack*. The panelists were Michael McDonough, Chief Economist at Bloomberg Intelligence; Caleb Silver, VP of Content at Investopedia; and Ali Velshi, Anchor at MSNBC.

The panel focused on how the positions of the presidential candidates were driving investors' and voters' financial concerns, and how that translated into global market activity. Panelists highlighted various polls, indices and other indicators that measured investor sentiment, including Investopedia's Anxiety Index (IAI), the University of Michigan investor sentiment survey and online searches for various terminology used in the debates. A global perspective was introduced regarding issues leading the debates, such as the Trans-Pacific Partnership (TPP) and US relations with Mexico. Finally, the panelists shared what they considered the most important factors that could influence the market *after* the election, including a potential year-end Fed rate hike and any shift in the balance of power in Congress.

At the conclusion of the program, the speakers joined the Museum's guests for a cocktail reception and several press interviews. A video of the program will be available on the Museum's YouTube channel (youtube.com/FinanceMuseum) and website in the near future. $

Photos: Elsa Ruiz

The participants in the "Your Vote. Your Money." program included (left to right) Ali Velshi, Caleb Silver, Consuelo Mack, Michael McDonough, Jason Trennert and Nicholas Bohnsack.

Nicholas Bohnsack (left) in a fireside chat with Jason Trennert, both of Strategas.

DEC 1 1919 The Chicago Mercantile Exchange opens for its first day of trading.

DEC 7 1999 Yahoo! is added to the S&P 500 Index. The stock hits $576, up $139 or 32% in a single week.

The $3 War of 1812 Treasury Note

By Sarah Poole, Collections Manager

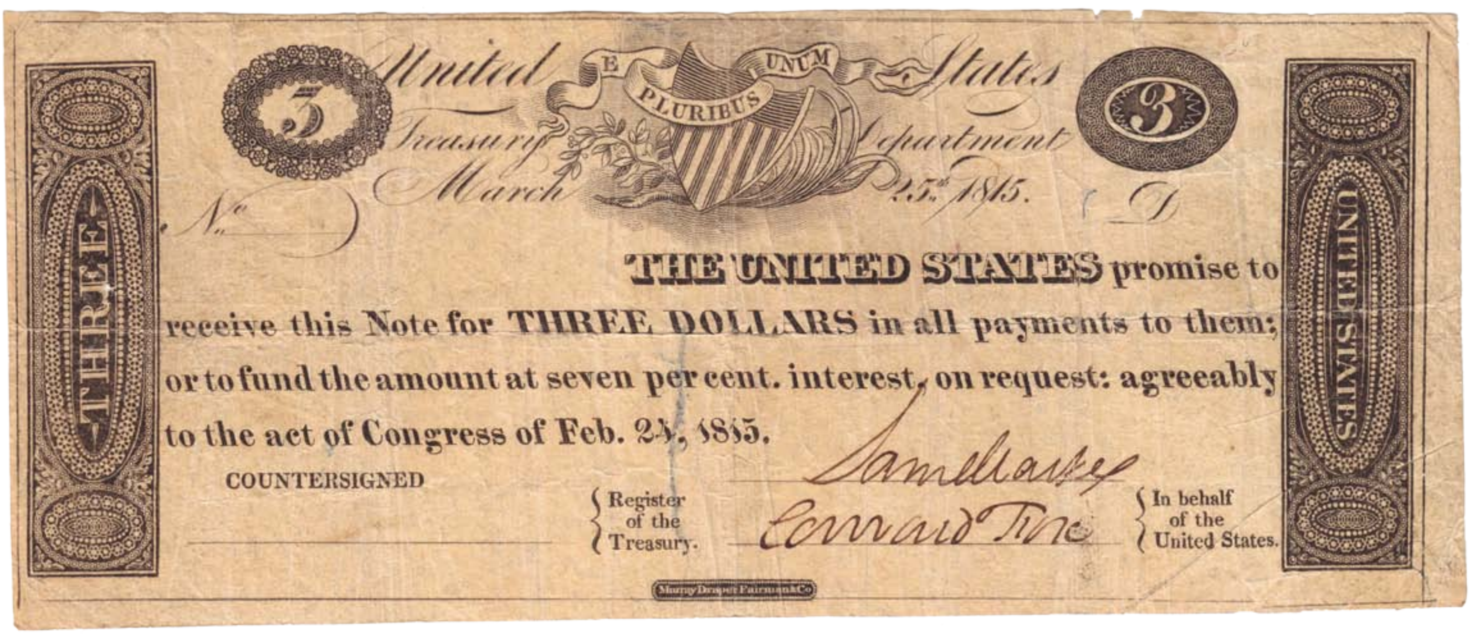
An exceedingly rare example of US paper money in the Museum's collection is a $3 Treasury Note issued in 1815. This note was part of five series of notes issued between 1812 and 1815 created to help fund the War of 1812.

On June 18, 1812, the United States declared war against Great Britain over conflicts including the British impressment of American sailors, as well as British attempts to restrict American trade and expansion in North America. Although tension between the two nations had been building for years, the United States was unprepared for war. The Army was small and the national sentiment was divided. The New England states vehemently opposed the war, undermining the effort by withholding their militias, trading with the enemy and threatening possible secession.

Furthermore, the US economy lacked the strength to financially support the war. In 1811, Congress refused to renew the charter of the First Bank of the United States, the quasi-central bank established by the first Secretary of the Treasury, Alexander Hamilton, in 1791. Without a national bank to facilitate funding, the Treasury had to raise funds directly.

Led by the fourth Secretary of the Treasury Albert Gallatin, the United States first resorted to war loans. Congress authorized a loan of $11 million in March 1812 in anticipation of the war, to be issued as 6% bonds (known as "stock" at the time). The issue was not particularly successful, and the Treasury was forced to come up with other solutions.

One such solution was to issue Treasury Notes. The first four issues between 1812 and 1814 bore 5.4% interest and totaled $40.5 million. They were denominated in $20, $100 and $1,000 notes. Congress authorized the fifth issue on February 24, 1815. Although the Treaty of Ghent was signed on December 24, 1814, word of the peace agreement did not reach the United States until February 1815. Congress officially proclaimed the end of the war on February 18, 1815, but the fifth issue of notes still funded the costs of the conflict.



The Museum's rare $3 Treasury Note from 1815 is currently on view in "America in Circulation: A History of US Currency Featuring the Collection of Mark Shenkman."

DEC 13 1961

The longest bull market on record, which began June 14, 1949, ends as the Dow Jones Industrial Average peaks at 734.91.

DEC 15 1886

For the first time, total daily trading volume on the NYSE exceeds one million shares.

This last issue was different from the previous four in that its \$25 million was denominated in \$3, \$5, \$10, \$20, \$50 and \$100 notes. Only the \$100 notes bore 5.4% interest. The small denominations—from \$3–\$50—bore no interest, but they could be exchanged for US 7% bonds. The \$3–\$50 notes circulated as cash, as individuals used them for purchases, merchants used them to pay duties and banks held them in reserve. Therefore, these notes can be considered the first United States currency issued after the ratification of the Constitution and the first federal currency not backed by a hard commodity, such as gold or silver. Interestingly, this is also the first and only time the US government has issued paper money in the \$3 denomination.

According to Arthur L. and Ira S. Friedberg in *Paper Money of the United* States, the Museum's note is one of the four known "double signature" \$3 notes from the Act of February 24, 1815 series. It was issued on March 25, 1815 and is signed by Samuel Clarke and Edward Fox, but it lacks the signature of the Register of the Treasury, Joseph Nourse. Therefore, the note never circulated and is known as a "remainder."

This note is currently on display in "America in Circulation: A History of US Currency Featuring the Collection of Mark Shenkman," alongside a \$5 unsigned remainder note from the same issue. Both notes are also featured on the exhibit website at www.moaf.org/money. \$

Sarah Poole is the Museum's Collection Manager and one of the curators of "America in Circulation."

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UPCOMING EVENTS

Nov 15 Book Launch: *Alexander Hamilton: The Illustrated Biography*, by Dr. Richard Sylla. 6:00–8:00 p.m. \$15 admission; members and press free.

Nov 30 Evening Lecture Series: Kenneth Rogoff on *The Curse of Cash*. Talk followed by Q&A, book signing and reception. 6:00–8:00 p.m. \$15 admission; members and students free.

Dec 6 Lunch and Learn Series: Sidney Rocke, Chief Counsel for the BEP, on "The Fight Against Counterfeiting." Presentation followed by Q&A. 12:30–1:30 p.m. \$5 includes Museum admission; members and students free.

Jan 11 Lunch and Learn Series: Barbara Chernow on "Behind the Scenes at the *Papers of Alexander Hamilton*." Talk followed by Q&A. 12:30 - 1:30 p.m. \$5 includes Museum admission; members and students free.

Jan 25 Lunch and Learn Series: Jonathan Knee on *Class Clowns: How th e Smartest Investors Lost Billions in Education*. Talk followed by Q&A and book signing. 12:30–1:30 p.m. \$5 includes Museum admission; members and students free.

Feb 1 Annual Museum Gala honoring Lawrence H. Summers and Joe Ricketts. 6:30–9:30 p.m. For information, contact Jeanne Driscoll at jdriscoll@moaf.org.

Feb 22 Lunch and Learn Series: Norm Champ on *Going Public: My Adventures Inside the SEC and How to Prevent the Next Devastating Crisis*. Talk followed by Q&A and book signing. 12:30–1:30 p.m. \$5 includes Museum admission; members and students free.

Apr 5 Lunch and Learn Series: Robert Vambery and Taranza Ganziro on *The Exorbitant Burden*. Talk followed by Q&A and book signing. 12:30–1:30 p.m. \$5 includes Museum admission; members and students free.

Apr 12 Evening Lecture Series: Aswath Damodaran on *Narrative and Numbers: The Value of Stories in Business*. Talk followed by Q&A, book signing and reception. 5:30–7:00 p.m. \$15 admission; members and students free.

For more information or to register online, visit www.moaf.org/events.

DEC 13 1913 The Federal Reserve Act, authorizing the creation of the Federal Reserve System, is signed into law by President Woodrow Wilson.

DEC 28 1967 After 175 years, the NYSE finally admits its first female member, Muriel Siebert.

Conquistadorial Entrepreneurship: Lessons Learned

By Dan Cooper and Brian Grinder

In our last "Educators' Perspective," we argued that the Spanish Conquistadors were not professional soldiers but armed entrepreneurs. We concluded that although the Company of the Levant was successful, the outcome for many of its participants was less than optimal. The column ended with two unanswered questions, which we will now address. What can today's entrepreneurs learn from the Conquistadors, and did the Conquistadors take on too much risk?

Lessons for Today's Entrepreneurs

Beware! Creative Destruction Happens at the Most Unexpected Times

Creative destruction occurs when disruptive events or technologies change the rules of the game and bring about the demise of current businesses or institutions. The book industry and the music industry are both recent examples where the creative disruption of the Internet radically changed both industries.

When Atahualpa met the Conquistadors at Cajamarca, he was at the top of his game. He was heading south to Cuzco to claim the Incan throne after a long and bloody civil war with his half-brother Huascar. This journey should have ended with Huascar's death and Atahualpa's coronation, but the Conquistadors intervened. The presence of foreigners mounted on strange animals was a minor annoyance to Atahualpa. He planned to capture and kill most of the foreigners. Those he allowed to live would become eunuchs tasked with guarding his harem. He would then capture their horses and raise them in great numbers to bolster his power. The Conquistadors had other plans and eventually captured the soon-to-be Incan king.

The Conquistadors prevailed with their superior technologies and their horses, but most importantly, they succeeded with the aid of native allies who vastly outnumbered the Spaniards. After 90 years of

Illustration of "The Killing of Pizarro" from Kim MacQuarrie's *The Last Days of the Incas.*

brutal Incan rule, many non-Incan natives embraced the Spaniards as liberators, and they were eager to take up arms against Atahualpa. The political and economic institutions created and fostered by the Inca Empire were ending.

Successful Entrepreneurial Endeavors Do Not Take Place in a Vacuum

The myth of the great men argues that the Conquistadors prevailed because they were extraordinary men with superior technology. While it is certainly true that the Spaniards possessed superior technology, the claim that they were great men does not hold up to close scrutiny. As mentioned previously, the Conquistadors prevailed by allying themselves with the non-Incan natives who were fed up with oppressive Incan rulers. Without their aid, it is doubtful that the Conquistadors would have succeeded in their conquest of Peru. They also had help from the Spanish government.

Don't Ignore the Government

The Spanish crown helped the Conquistadors by giving them exclusive rights to exploit certain areas in the New World in exchange for 10% of all of the precious metals obtained in the venture. Although the king was not a major source of financing for the Conquistadors, he did provide them with some military equipment.

The crown also retained the right to govern the New World, but it was a world far removed from the courts of Europe. The Conquistadors had a tendency to take the law into their own hands and ignore edicts and directives from across the ocean. For instance, although the king discouraged slavery in the Americas and eventually prohibited the practice, it was widespread in Spanish America. As conditions in Peru began to deteriorate into lawlessness, the king attempted to restore order by sending a personal representative to take over the reins of government.

Age and Education Aren't Necessarily Important

Francisco Pizarro was in his early 50s when he conquered Peru. By the standards of his age, he was an old man. He spent the better part of 30 years in the New World and was already wealthy. Nevertheless, he was not too old to take on a new venture.

Although Pizarro was the illiterate, illegitimate son of a Spanish farmer, he did not let these disadvantages stop him from pursuing the opportunities that were available to him in the New World. He serves as an inspiration to those who fear that their age, lack of education or low social standing prohibit them from engaging in entrepreneurial activities.

Profits Should Be Distributed Equitably

We previously noted that in order to participate in the profits of the Company of the Levant, a shareholder had to be present at the event that generated the wealth. So when Diego De Almagro missed out on the capture of Atahualpa at Cajamarca because he was busy obtaining additional men and supplies for the expedition in Panama, his share of the wealth wrested from the Inca overlord was a pittance. This single act eventually led to the demise of Almagro at the hands of Hernando Pizarro and to the death of Francisco Pizarro.

Had the Conquistadors paid more attention to their Catholic faith, they may have become familiar with the story of David (of David and Goliath fame) at the brook Besor. David was living in exile after Saul, the king of Israel, made several attempts on his life. He was living in enemy territory in the Philistine city of Ziklag. While David and his men were off on a military mission with the Philistine king Achish, Amalekite raiders attacked, looted and burned defenseless Ziklag and made off with all the women and children.

David's men were upset and threatened to stone David for leaving the city in such a vulnerable state. David, however, rallied his troops and set out to apprehend the Amalekites. They rode with such furious abandon that when they reached the brook Besor, one third of them were too exhausted to cross the brook. Those who could not continue stayed behind with the supplies while David and the rest of his men continued their pursuit. Luckily, they came upon an abandoned Egyptian slave of one of the Amalekites. The slave revealed the Amalekites' location to David, who immediately mounted an attack on the unsuspecting rogues.

David recovered all the women and children and seized all of the Amalekites' flocks and herds. When the victorious war party returned to the brook Besor, "…all the wicked and worthless fellows among the men who had gone with David said, 'Because they did not go with us, we will not give them any of the spoil that we have recovered, except that each man may lead away his wife and children, and depart.'"

David disagreed and said, "For as his share is who goes down into the battle, so shall his share be who stays by the baggage. They shall share alike." And he made it a statute and a rule for Israel from that day forward to this day." (1 Samuel 30:22–25 ESV)

According to pastor and author Eugene Peterson, "The brook Besor marks an important event in human history." David, he argues, "…didn't bend to the cowardice that we neutralize with our phrase 'peer pressure'… He had no interest in a security gained at the expense of the people with whom he lived. He wasn't out to save his own soul. He was, in a word, compassionate."

David's wise decision at the brook Besor engendered the loyalty and trust of these men for the next 40 years, as he led Israel into its golden era.

The Conquistador's decision to reward those present at Cajamarca and stiff everyone else led to disastrous consequences and divided the Conquistadors into two warring factions. Hernando Pizarro, who would later spend over 20 years in a Spanish prison for this act, executed Almagro at Cusco. Almagro's angry followers never forgave the Pizarros and vowed vengeance. On a foggy June morning in 1541, less than nine years after the capture of Atahualpa, Almagristas stormed Francisco Pizarro's home in Lima and killed the 63-year-old Conquistador.

Did the Conquistadors Take on Too Much Risk?

In the 16th century, it was risky to cross the Atlantic to reach the New World, it was risky to encounter the hostile natives of

the area and it was risky dealing with other greedy Conquistadors. Risk is always an issue for the entrepreneur, and the world of the Conquistador was extremely risky.

Risk is borne because of the potential rewards it may bring about. The Conquistadors were willing to take risks, but they were not very good at risk management. Many of the risks they bore were unnecessary and easily mitigated with wiser decision-making. These poor decisions led directly to the demise of Almagro and Pizarro. $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

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The Always Evolving Federal Reserve

By Peter Conti-Brown

Everyone loves a good origins story. Marvel Comics, for example, has minted money telling us again (and again) how Peter Parker came to be Spiderman or Charles Xavier came to lead the X-Men.

The same is true for institutions too. The most obvious is American enthusiasm for its founders. Lin-Manuel Miranda, the genius behind the runaway success "Hamilton: An American Musical," shows us just how much public enthusiasm can gather around these narratives. But our continuing debates about gun rights, the Senate filibuster and whether Canadian-born Ted Cruz can one day become President are all examples of how much a founder's vision of history still guides our current thinking. Just as we trace a superhero's history through that fateful spider bite, we often look to those founding moments to guide our sense of the present.

Whatever the virtues of using founders' history to define our debates about the meaning of the US Constitution—or superheroes, for that matter—the temptation to use that lens to evaluate institutions like the Federal Reserve should be resisted. The problem is that the "founding moments"—here, most importantly, the Federal Reserve Act of 1913—refer to an age long past, with only faint echoes reverberating through history.

Focusing on a founder's vision of the Federal Reserve in 1913 is as likely to mislead as to inform an effort to understand the Fed and its extraordinary powers in the present. Instead, it is better to look at the Fed's near constant institutional change over the last century. Not a founding moment, but a series of founding moments, each one of which builds (or takes away) from the way we understand the institution. It is an evolutionary process, not one built by intelligent design.

The Conventional Story: In the Beginning

The first problem with founder history in the Federal Reserve context is how vulnerable even the founding is to mythology. The conventional retelling of the Fed's founding starts in the right place: the Panic of 1907, one of the most destructive in the nation's history. In that retelling, the panic was an accelerating financial bloodletting that the US government could do nothing to staunch. It was only the intervention of that towering figure of Anglo-American finance in the late 19th and early 20th centuries, J. Pierpont Morgan, who subdued the panic. Morgan, it was reported by his associates at the time, was "the man of the hour," whose pronouncements—bland and obvious in retrospect, such as "[i]f people will keep their money in the banks everything will be all right"—assumed talismanic significance. A sleepless night of Morgan's banking associates, locked by Morgan in his smoky library, led to the salvation of the US financial system.

As the story goes, after the financial panic, private bankers and government officials decided that an all-eyes-turn-to-Morgan approach to financial panics could not continue to be the basis of US banking policy. After a secret meeting of bankers and their political sponsors in the US Congress at the Jekyll Island Club, located on an island of the same name off the coast of Georgia, the Federal Reserve scheme was hatched. (Given that this secret Jekyll Island meeting came complete with disguises and codenames and Omertà-like oaths of secrecy, and only became public 20 years after the fact, it has been great grist for the conspiracists' mills in the years since.) President Woodrow Wilson signed the bill into law as the Federal Reserve Act of 1913.

This is, again, the conventional retelling. And again, many elements are true: there really was an extraordinary global financial panic of 1907, J.P. Morgan did have a role (although that role has been much exaggerated) in arresting the spread of contagion, a secret meeting of bankers and politicians did take place on Jekyll Island and the Federal Reserve Act of 1913 did eventually follow.

But from the perspective of trying to

The First Federal Reserve Board, with William McAdoo serving as chairman.

understand the modern Federal Reserve System, the story tells us almost nothing. The primary problem with this retelling is that it links, almost ineluctably, the Panic of 1907 and the Federal Reserve Act of 1913 with a pit stop in this mysterious island meeting of a cabal of New York bankers. If we are to understand the Fed and where its unique governance came from, these uncritical links are a mistake. The six years in between the Panic of 1907 and the Federal Reserve Act of 1913 were decisive for the fate of the Federal Reserve System, including as they did two presidential and three congressional elections. When the electoral dust settled, power had shifted from Republicans — at the time, the bankers' primary supporters in Congress — to Democrats (the House changed in 1910, the Senate in 1912).

At the center of this political moment was the presidential election of 1912. Few presidential elections in US history match it for its drama. Gone were the staid front porch campaigns between two senior partisans. Instead, the election pitted two US Presidents, Theodore Roosevelt and William Howard Taft, against Woodrow Wilson, a college president turned New Jersey governor who had entered politics just two years before. On the edge but not the fringe was the most popular socialist in American history, Eugene Debs, who captured 5% of the vote.

Historians have debated how much policy daylight stood between the three main candidates, although there was little doubt that Debs represented something very different from the others. The perception at the time, and continuing today, was that the aspirations of each candidate represented distinct approaches to the role of government in society. In the words of one historian, the 1912 election "verged on political philosophy."

That political philosophical moment in American history intervened between the Panic of 1907 and the Federal Reserve Act in ways that were essential in shaping the system's curious governance structure, with power ambiguously allocated between 12 regional central banks and one governmental bureaucracy in Washington, DC. Indeed, two of the three key words in the Fed's name — *Federal* and *System* — came in the post-1912 election. Federal, because of the allocation of power in a quasi-federalist system of regional Reserve Banks and the DC-based Federal Reserve Board. System, to reflect the separate, but coordinated features of the system.

What this refined history of the Fed's origins tells us is how much contingency matters in the history of the Federal Reserve. Had Theodore Roosevelt won the Republican primary (or not bolted the Republican convention and split the party), the governance structure of the Fed would have looked very different.

Founding the Federal Reserve, Again and Again and Again

Contingency, though, is an ever-present phenomenon in the history of the Federal Reserve. And while the story of the Fed's legislative creation is full of drama and intrigue — as Roger Lowenstein has recently shown in his history of the first founding, to great effect — using that drama as a guide to modern debates about central banking is similar to reading the Magna Carta to shed light on the meaning of the Equal Protection Clause in 2016. It's not an entirely useless exercise. But it's pretty close.

Consider two examples of how the Fed changed, and changed dramatically, in ways that a founders-only vision of Fed history will ignore. First is the very basis of understanding money that Fed founders envisioned. In 1913, the intellectual edifice of the Federal Reserve System relied on two pillars: the gold standard and what would later come to be called the "real bills doctrine." In the first, money would be convertible (subject to certain restrictions) to gold; in the second, the Federal Reserve Banks would only lend money to banks when they presented collateral that represented transactions already complete.

At the time of the passage of the Federal Reserve Act in 1913, both concepts were seen as essential to the Federal Reserve Act's legitimacy. The claim that the new "Federal Reserve Notes" that the Fed would issue represent "fiat money" were fighting words. The colorful Congressman Carter Glass's defense on the House floor against the charge is quotable at length:

> Fiat money! Why, sir, never since the world began was there such a perversion of terms; and a month ago I stood before a brilliant audience of 700 bankers and businessmen in New York City, and there challenged the president of the National City Bank to name a single lexicographer on the face of the earth to whom he might appeal to justify his characterization of these notes. I twitted him with the fact that not one percent of the intelligent bankers of America could be induced

> to agree with his definition of these notes, and asked him to name a single financial writer of the metropolitan press of his own town, to whom he might confidently appeal to justify his absurd charge.

Even before the Fed opened its doors, though, these twin pillars began to collapse. The assassination of Archduke Franz Ferdinand sparked the powder keg of European war in August of 1914. And with it, the gold standard ceased to exist.

What of the real bills doctrine? In time, central bankers and others came to see its intellectual futility. The very fungibility of money made policing the boundary between "real" bills and speculative transactions difficult. The Fed soon abandoned it.

The road away from gold standards and gold exchange systems didn't formally end until 1973, but the legislative creation in 1913 had already lost its intellectual apparatus within months and years. Putting too much weight on the Fed's legislative founding misses the history as it unfolded.

There's a second essential example. If the energy on the functional Federal Reserve at the 1913 founding was spent thinking through gold and bills of trade, the structural question was on the federalist system described above. Woodrow Wilson, like his intellectual idol James Madison, was a constitutional experimenter. He saw in the Federal Reserve System something that no one else had requested: the chance to allocate power according to a logic of checks and balances. Much of the story of the 1913 Act is about how those checks and balances came together, how the Republican-preferred "National Reserve Association" became the Democratic "Federal Reserve System."

But there's a problem. That 1913 structure no longer exists. The Roosevelt administration and the quiescent 74th Congress abolished it in 1935. In that congressional session, FDR pushed through what was called then and since "the second New Deal," a legislative burst late in FDR's first term that included at once the passage of the Social Security Act, the National Labor Relations Act and the Public Utility Holding Company Act, among others.

One of the less-debated pieces of legislation at the time was the Banking Act of 1935, a legislative redesign of the Federal Reserve Act almost from the ground up.

The 1913 Act created a Federal Reserve Board of uncertain authority; the 1935 Act abolished that structure and created the modern "Board of Governors of the Federal Reserve System," giving it unquestioned formal authority over the Federal Reserve Banks with respect to banking supervision and regulation. (Even today, when insiders and outsiders refer to the Federal Reserve Board, they indulge in a bit of widely accepted but still erroneous historical revisionism.)

Thomas D. McAvoy/The LIFE Picture Collection

Marriner Eccles, a millionaire from Utah, refused appointment to lead the Federal Reserve Board without getting a chance to rebuild the system from the ground up.

The Act also recreated the Federal Open Market Committee (FOMC), the powerful committee in charge of using seigniorage to manipulate the availability of credit throughout the economy. It did so to significantly curtail the influence of the Reserve Banks. It is not an exaggeration to say that the Bank Act of 1935 changed the Federal Reserve Act so profoundly such that the original legislation is better thought of as the Fed's Articles of Confederation, not its Constitution.

The Banking Act thus put an end to the experiment with decentralized central banking that is the centerpiece of the debates over the 1913 legislation. But in the Second New Deal, reforming the Fed wasn't even a major legislative priority. It happened instead because a millionaire Utahan named Marriner Eccles refused appointment to lead the Federal Reserve Board without getting a chance to rebuild the system from the ground up. It may be the only time in history that a piece of legislation revamping a federal bureaucracy was essentially an employment contract.

The death of the gold standard and the real bills doctrine on the one hand, and the passage of the Banking Act of 1935 on the other, are but two example of these re-founding moments. They happened again and again and again, throughout the Fed's history, and they continue to occur today.

The Fed in 2016 is already dramatically different than the Fed in 2007, in ways that attention to a piece of 1913 legislation simply cannot detect. But in most writers' visions of institutional history, the Fed needs an origin story just like any superhero. In the beginning, there was a moment of intense change. What happened thereafter may be where the action is, but it's not where we'll learn about the accumulation of power. For the Federal Reserve, this vision of institutional history is simply an imprecise and misleading historical methodology.

The better metaphor may well be from evolutionary biology. Institutions aren't founded once and then left to change on a simple trajectory. Theirs is a punctuated equilibrium, with change happening quickly and then not at all, founded and re-founded and re-founded again. When we dig deep into the debates around the creation of the Federal Reserve System, we don't actually learn much about the Federal Reserve System. Those debates in 1913 aren't about the founding of the Federal Reserve System. They are a history of the writing of the Federal Reserve Act of 1913 and shouldn't be given much more privilege in telling us the history of the institution than the other founding moments. $

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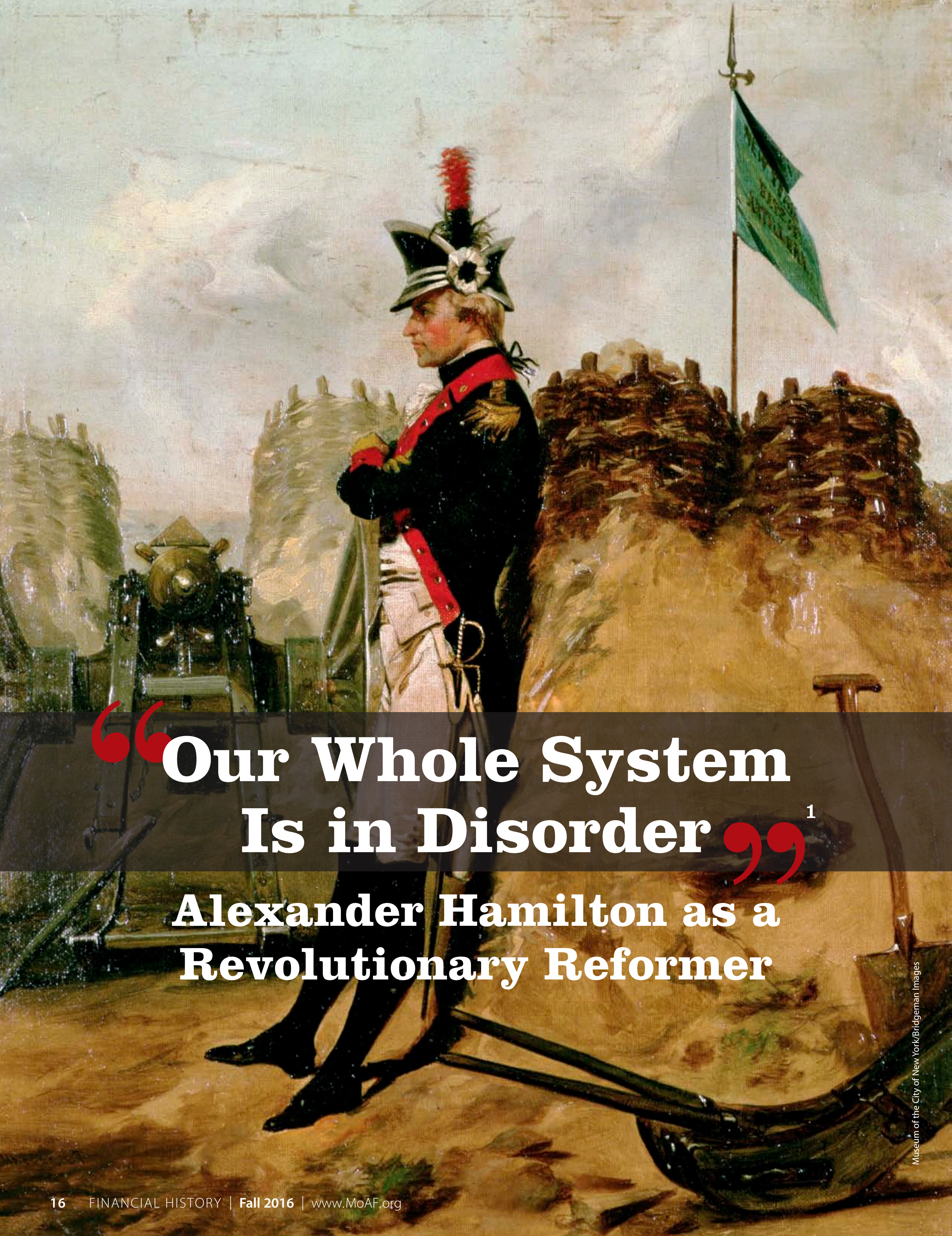

"Our Whole System Is in Disorder"[1]

Alexander Hamilton as a Revolutionary Reformer

Museum of the City of New York/Bridgeman Images

By Richard Sylla

The Trustees of the British Museum/Art Resource, NY

Tin pattern for a silver dollar planned by the Continental Congress, 1776.

By 1781, the Revolutionary War had dragged on for five grueling years. Congress's Continental Currency, first issued in 1775 and issued to excess by 1779, was quickly becoming worthless. Congress pegged these "Continentals" one-to-one to the Spanish peso, but never indicated when that redemption might happen. Congress didn't have enough Spanish dollars—as the pesos generally were called in the English-speaking world—to redeem the Continentals they had printed, so the money swiftly morphed into a fiat currency that hemorrhaged value.

When Hamilton wrote his first surviving letter on finance in late 1779 or early 1780, he noted that it took 20 paper dollars to buy one silver dollar.[2] In March 1780, Congress revalued the Continentals at a rate of 40 paper to one silver. A year later, that rate was plummeting to 100 to one.

The Power to Tax

Individual states also issued paper currencies, which did little better. Unlike the Confederation Congress, the states could levy taxes. In fact, they were *supposed* to do that to meet their own fiscal needs as well as Congress's national needs — mainly financing the war at this point. State taxes were supposed to support the value of paper currencies, their own and the Continentals, by making them acceptable for tax payments. But state taxes and revenues collected proved woefully inadequate. It turns out that Americans didn't like taxation with representation any more than they liked taxation without representation.

Borrowing, an alternative to taxation and printing money, proved difficult both at home and abroad. Hyperinflation undermined lender confidence. After all, rebel governments demonstrating fiscal irresponsibility tend not to have good credit!

Hamilton's first letter notes that prices were rising much faster than the quantity of paper money that Congress and the states were issuing. He had stumbled onto the modern concept of the velocity of money, or how fast people spend it. Rising inflation makes people realize that money is declining in value, so they spend it as fast as they can before prices rise further. It's all well and good to note the behavior, but Hamilton wisely turned to solutions: "The most opulent states of Europe in a war of any duration are commonly obliged to have recourse to foreign loans and subsidies. How then could we expect to do without them?"

In other words, Congress needed cash from abroad. That much was obvious, but how to shore up the nation's finances with that loan?

> The only plan that can preserve the currency is one that will make it the immediate interest of the monied men to cooperate with the government in its support. This country is in the same predicament in which France was previous to the famous Mississippi scheme projected by Mr. Law. Its paper money like ours had dwindled to nothing, and no efforts of the government could revive it, because the people had lost all confidence in its ability…
>
> Article 1st The plan I would propose is that of an American bank, instituted by authority of Congress for ten years under the denomination of The Bank of the United States.
>
> 2d A foreign loan makes a necessary part of the plan, but this I am persuaded we can obtain if we pursue proper measures. I shall propose it to amount to 2,000,000 £ Sterling. This loan to be thrown into the Bank as part of its stock.
>
> 3 A subscription to be opened for 200,000,000 of dollars and the subscribers erected into a company called the company of the Bank of the United States.[3]

"Americans didn't like taxation with representation any more than they liked taxation without representation."

Plan for the Bank of the United States

Hamilton's proposal to use a foreign loan to capitalize the Bank of the United States also included establishing a sound currency to replace the discredited Continentals and state-issued paper currencies. The bank would issue an entirely new currency convertible into specie, or coin money. With this new money, confidence would rise. Private investors would augment the bank's capital and share in its profits with the government, and the bank would lend to both the government and individuals.

Hamilton in the Uniform of the New York Artillery, by Alonzo Chappel.

"We may therefore by means of this establishment carry on the war three years," Hamilton noted.[4]

A public authority would review the bank's books, and Congress wouldn't grant it exclusive privileges that might "fetter the spirit of enterprise and competition on which the prosperity of commerce depends."

Significantly, this new bank — really a central banking corporation — wouldn't have monopoly privileges, leaving the door open to form more banks and a fully fledged banking system. The only financial pillar that Hamilton didn't mention was a securities market to trade the bank's stock and government debt to increase the liquidity of both, an idea that became part of his grand plan a decade later.

• • •

Then it happened. The Continental currency collapsed. In response, Congress appointed Robert Morris, one of the country's leading merchants and patriots, as Superintendent of Finance. Shortly thereafter, Hamilton sent an essay to Morris in April 1781.

Hamilton wrote the letter as he was transitioning from Washington's aide to his field command in the Army. He stressed the importance of finance to the revolution: "'Tis by introducing order into our finances—by restoring public credit—not by gaining battles, that we are finally to gain our object."[5] Then he shared some ideas he had on financial administration.

Pennsylvania Academy of Fine Arts, Philadelphia/Bridgeman Images

Robert Morris, the Superintendent of Finance for Congress.

> **Hamilton had figured out why the war had dragged on for so long.**

First he estimated the revenue capacity of the country, comparing it with an estimate of necessary civil and military expenses. No great shock: The latter greatly exceeded the former, leaving a deficit. Foreign loans might help, but they certainly couldn't heal the shortfall. Hamilton's solution once again was a national bank. He discussed the pros and cons of national banks in theory and in history, including how banking development and the expansion of credit promoted both state power and economic growth:

> The tendency of a national bank is to increase public and private credit. The former gives power to the state for the protection of its rights and interests, and the latter facilitates and extends the operations of commerce among individuals. Industry is increased, commodities are multiplied, agriculture and manufactures flourish, and herein consist the true wealth and prosperity of a state.
>
> Most commercial nations have found it necessary to institute banks and they have proved to be the happiest engines that ever were invented for advancing trade. Venice, Genoa, Hamburgh, Holland and England are examples of their utility. They owe their riches, commerce, and the figure they have made at different periods in a great measure to this source. Great Britain is indebted for the immense efforts she has been able to make in so many illustrious and successful wars essentially to that vast fabric of credit raise on this foundation. 'Tis by this alone she now menaces our independence.[6]

In this letter, Hamilton had figured out why the war had dragged on for so long: The British were better financed and had better credit. This point underscored his plan to make better finance and a credit-based economy one of the cornerstones of American power.

The rest of Hamilton's letter consists mostly of articles that comprise the national bank's charter and a discussion of same. The bank would be a corporation,

Courtesy Wikimedia Foundation

$3 Continental Currency note, 1776.

for example, which seemed so obvious to Hamilton and to a businessman such as Morris that it "needs no discussion"—although in America, as elsewhere, few corporations existed then.

The National Debt

The letter ends with a brief look at the national debt once the war ended. It wouldn't pose a problem, Hamilton said, because good financial administration and the country's growth would enable America to pay the debt in a matter of decades. In fact, the debt had benefits:

> A national debt if it is not excessive will be to us a national blessing; it will be a powerful cement of our union. It will also create a necessity for keeping up taxation to a degree which without being oppressive, will be a spur to industry.…We labor less now than any civilized nation of Europe, and a habit of labor in the people is as essential to the health and vigor of their minds and bodies as it is conducive to the welfare of the State. We ought not to suffer our self-love to deceive us in a comparison upon these points.[7]

Here we catch a glimpse of one reason that Hamilton later became the least loved of the founders. He spoke his mind frankly, in this case saying that he didn't think Americans worked very hard. If they had to pay taxes to service the national debt incurred as the price of their liberty, they would have an incentive to work harder. To Hamilton, that was good for them and the country regardless of whether they liked it.

The letter to Morris was a private communication, but it shows the same candor that marks Hamilton's public speeches and writings. His often polemical public work, whether over his own name or various pseudonyms, provoked strong reactions — both favorable and unfavorable. The other founders paid greater heed to what they said and wrote as it affected their public images. This tendency haunted Hamilton in later years.

Morris replied to Hamilton that he had been thinking along similar lines, although the Bank of North America that he proposed had a less ambitious scale and scope than the national bank that Hamilton recommended. Much of the capital for the Bank of North America — which Congress chartered in 1781 — came from a loan that year from France, which, as Hamilton foresaw, wanted to destabilize Britain. Morris used the loan to purchase most of the bank's shares for the US government, a necessity because private investors, given the shakiness of America's finances, largely refrained from buying the shares that Morris offered.

The bank opened in Philadelphia in 1782 and offered considerable aid to the government during the two-year transition from war to peace. Morris then sold the government's shares to private investors, and the Bank of North America continued as an ordinary commercial bank.[8] $

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Notes

1. Alexander Hamilton, "The Continentalist No. III," *Papers of Alexander Hamilton*, vol. II, p. 661.
2. We know neither the exact date nor the addressee — likely a member of Congress — of this letter. Only the draft of the letter exists in the Hamilton Papers at the Library of Congress.
3. *Papers of Alexander Hamilton*, vol. II, p. 245–45.
4. *Papers of Alexander Hamilton*, vol. II, p. 248.
5. *Papers of Alexander Hamilton*, vol. II, p. 606.
6. *Papers of Alexander Hamilton*, vol. II, p. 618.
7. *Papers of Alexander Hamilton*, vol. II, p. 635.
8. After a number of mergers over the years, America's first bank now forms part of Wells Fargo.

Michael Rougier/The LIFE Picture Collection

QUEEN OF THE

Corporate Gadflies

THE UNSTOPPABLE WILMA SOSS

By Janice Traflet

A cleaning woman, with mop and pail in tow. A well-dressed Victorian lady, wearing a purple velvet hat, a fancy lace blouse and an expensive mink. A safari guide, sporting khaki long shorts and a helmet. All of these—and more—were costumes donned by the colorful Wilma Porter Soss as she vividly made her points at various stockholder meetings across the United States.

For more than 40 years, beginning in the late 1940s, the legendary shareholder activist energetically and passionately pressed management for a wide range of reforms, such as appointing more women to corporate boards, moving stockholder meetings to more accessible locations, curbing executive compensation packages and increasing the transparency of financial statements. "Corporate gadfly" was the term often applied to Soss. Like a pesky fly, she irritated management as she publicly questioned their practices, and many chief executives probably wished they could swat her away.

Soss, however, proved to be remarkably persistent, and she helped highlight the potential power of owning even one share in a public corporation. While one share equals only one vote (and hence larger shareholders carry more weight with their votes), one share nevertheless entitles the bearer to certain privileges, like attending and speaking at stockholders meetings. Soss strategically accumulated small numbers of shares in multiple companies in order to be able to attend their annual meetings and proffer shareholder resolutions there. Having built a lucrative career in public relations prior to embarking on her crusade as a shareholder activist, Soss well understood the power of publicity, and she worked hard to harness it.

Wilma Soss speaks at a US Steel shareholders meeting, May 1, 1955.

In the early postwar period, Soss both reflected and helped disseminate the shareholder ideology rhetoric then being promoted by the financial community in the United States—discourse that extolled the power and the responsibilities of the individual investor, no matter how small. As the Cold War began to take shape, stock exchanges, listed corporations and member firms stressed the importance of American citizens from all walks of life buying stocks and becoming more actively involved in the free enterprise system.

Equity advocates constantly noted that investors in a corporation actually together *owned* that business, which entitled them to share in any profits that accrued. Moreover, as the financial community liked to say, people buying stock were not just purchasing a piece of an American corporation (as critical as that was); they were also buying "a share in America," which would serve as a defense against communism, as more people would have a stake in the system. An army of small investors, the lifeblood of capitalism, purportedly would enrich not just the shareholders themselves, but also the American way of life.

In her writings and interviews, Soss expressed many of these same thoughts. In March 1951, for example, Soss told *The New Yorker*, "The truth is, we shareholders own the corporations. All those Prussian-faced directors are just our employees—laboring people, you might say…" A fierce proponent of "shareholder democracy," Soss perceived herself as the voice of overlooked shareholders, particularly women shareholders. And she saw her work as helping preserve American capitalism.

Soss did not become involved in the fight for shareholder rights until she was in her mid-40s, when she began attending corporations' annual meetings and started realizing their deficiencies. Soon, she was actively participating and challenging management. Soss's first clash with a board was at the annual meeting of US Steel in May of 1947, when she leapt to her feet and made an impassioned speech. She demanded that women be represented on US Steel's board, arguing that women held more than half of the company's stock, and therefore were entitled to have their point of view represented, and by one of their own gender.

Recalling that meeting four years later, Soss told *The New Yorker,* "No one could have been more surprised than I was when I got to my feet that morning and said what I did." She added, "*I* didn't choose to be the head of the woman's economic-suffrage movement; I was just sitting quietly in my seat, brooding over my one share of stock, when the woman's economic-suffrage movement chose *me*."

At that same meeting, Soss announced to the "gentlemen on this board" that "…there is being born in this room today the Federation of Women Shareholders in American Business. And they will call upon the steel industry and ask for representation in the business they own." True to her word, Soss quickly organized a nonprofit corporation, which was chartered in the fall of 1947 with the endorsement of Justice Ferdinand Pecora, who had presided over the acrimonious investigation of Wall Street after the Crash of 1929.

In 1949, at another US Steel meeting in Hoboken, New Jersey, Soss offered the first of the Federation's many proposed shareholder resolutions: to move US Steel's annual meeting from Hoboken (where the company had been incorporated) to New York City (which was more convenient for a greater number of shareholders). As would become her modus operandi, Soss dressed in costume to make her point.




Attired in a Victorian outfit, she sought to visually convey that US Steel management was mired in old ways of thinking and doing things. She also reiterated the Federation's demand for at least one woman to be appointed to the board.

The immediate results at the 1949 meeting typified what would be Soss's experience at most other annual meetings: her proposal was defeated by a wide margin. Not only did Hoboken remain the site of future annual US Steel meetings, but also no woman was elected to the board that year. Nevertheless, she attracted considerable media attention, and she vowed to return the next year with the same resolution if management did not voluntarily change the location of the meeting. (Later, in an effort to counter such a strategy, the SEC ruled that "independent shareholders" could not bring forth the same failed resolution immediately the following year unless it originally had carried a certain percentage of votes.)

Though she became a household name for her attention-seeking antics at annual meetings, Soss was not the first corporate gadfly, nor was she the wealthiest. For example, more than a decade before Soss began fighting for shareholder rights, Lewis Gilbert and his brother John already had been staunchly advocating for corporate reforms. The Gilberts possessed substantial shareholdings in several companies, which they sought to protect by actively monitoring management.

While Soss would come to join forces with the Gilbert brothers, she more closely fit the mold of the average investor of the time: she owned relatively few stocks, and not a particularly large holding in any of them, yet she took her responsibilities as a shareowner seriously. She also seemed to grasp the trend that was just beginning to emerge — that more and more Americans would become involved in the stock market, putting aside as best they could their memories of the 1929 Crash and putting their faith in common stocks as effective vehicles for wealth creation. Individual share ownership in the United States, according to NYSE shareholder censuses, would grow from less than 6.5 million Americans in 1952 (approximately 4.5% of the population) to almost 31 million (over 15% of the population) by 1970. During most of that time, the stock market experienced an extended bull run.

Soss emerged as a champion of little investors at a time that was arguably the heyday of the individual investor. In the mid-20th century, the vast majority of shareowners were still individuals, not institutions, and the overwhelming number of stock trades were executed by them as well. Soss saw herself — and the Federation she headed and founded — as acting in the interests of ordinary investors, especially women.

Despite the fact that roughly half of the nation's shareowners were women when the organization debuted, the Federation of Women Shareholders under Soss's leadership never grew to be a large organization with much clout. In interviews, Soss repeatedly declined to state how many members the Federation had, as she was anxious not to detract from the perception of the organization as strong and vibrant. However, according to *The New Yorker*, the Federation in 1951 only had approximately 1,500 members. Given its small size, it is not surprising that most of the organization's resolutions failed.

Soss, though, always extolled the strides made by the Federation, not its weaknesses. For example, she invariably claimed victory whenever a woman was named to a corporate board, even if that corporation had not been specifically targeted by the Federation. To be fair, Soss and the Federation's efforts indeed contributed to getting at least some women on boards across the country and in other high places in corporations. Soss bristled, though, that more women who rose to positions of prominence were not sufficiently grateful to the Federation for their assistance. She also recognized the extent to which more progress needed to be made to improve board gender diversity. As she remarked to *The New Yorker* in 1954, "…one woman on these big boards isn't enough."

In the late 1960s, the leadership of the Federation fractured, as some of Soss's colleagues disagreed with her tactics. The concern was that her sometimes dramatic boardroom stunts might be diminishing the organization's efficacy by reducing its perceived legitimacy. For example, Soss goaded management at times to forcibly remove her from meetings. While she believed that such mistreatment of a shareholder by management could be bad publicity for the company, some within the Federation viewed Soss's conduct as unseemly.

In May 1966, Federation Vice President Beatrice Kelekian resigned in the wake of Soss being ejected from an IBM annual meeting. Complaining to *The New York Times* of Soss's "latest wrinkle of being tossed out of annual meetings," Kelekian said, "I just can't take it any longer." At IBM's annual meeting on April 25, 1966, Soss had to be carried out of the assembly room at the Shamrock Hilton Hotel, reportedly to the applause of many of the roughly 1,300 shareholders present who were irritated by her interruption of the meeting.

Soss had stubbornly continued to try to nominate a woman director even though Chairman Thomas Watson repeatedly told her he was not yet taking any nominations. A similar episode where Soss was ejected

had occurred at another company the prior year. Kelekian told *The New York Times*, "I can no longer be associated in the capacity of an officer with anyone who indulges in the undignified histrionics of Mrs. Soss with an eye strictly to personal publicity."

Always conscious of publicity, the very next day, Soss had her side of the story captured by the *Times*. She defensively claimed that Kelekian had not been able to devote as much attention to the Federation as she had in the past, and that Kelekian already had decided to step down prior to the IBM incident, in part because she had a conflict of interest.

Disregarding the fact that some were displeased with her tactics, Soss continued to get herself deliberately ejected from annual meetings. After being declared out of order at another IBM annual meeting, this one in 1971, Soss for the second time was dragged out of the auditorium by Pinkerton guards. Two of the guards, according to *The Wall Street Journal*, complained that Soss had scratched their hands as they whisked her away.

In this way and others, Soss tried her best to embarrass management in a variety of industries into making reforms. As *The New York Times* later recounted, she wore a cleaning woman costume to the Columbia Broadcasting System (CBS) annual meeting in 1969, determined to "clean up everything," as she said while referencing the network's quiz show scandals.

Chief executive officers winced at seeing Soss show up to their meetings. As *New Yorker* columnist Andy Logan once wrote, "There are undoubtedly a number of captains of American industry who wouldn't care what Mrs. Soss wore if she would just stay away." Soss's boardroom antics challenging management were reportedly the inspiration in the 1950s for a Broadway musical, *Solid Gold Cadillac*, which in 1956 was made into a movie starring actress Judy Holliday.

In addition to her work as a corporate gadfly, Soss also helped fight financial illiteracy, in part by serving as commentator and financial analyst for a popular weekly radio show on NBC. From 1954 to 1975, Soss wrote and delivered "Pocketbook News." Then, from 1975 to 1980, she hosted "Wilma Says." In these radio shows, Soss sought to help investors better understand how foreign and domestic events influenced the financial markets.

When Soss died in 1986, some corporate titans were among those who lamented her passing, even though she had been at times a contentious presence at their annual meetings. For example, Soss had pestered for years the management of The New York Times Company, but upon her death, Chairman Arthur Ochs Sulzberger extolled her. Commenting in *The New York Times*, Sulzberger noted that Soss had during her life "represented the small shareholders with dignity, pride and courtesy." He continued, "Sometimes we may have grown a mite impatient with her long lists of questions, but she never provoked dismay or anger. I think her voice will be missed, and we will miss her personally."

Soss's old friend and fellow activist John J. Gilbert also was quoted as saying, "Her training as a publicist stood her well as a gadfly." He added, "I don't think anyone ever had a better way of bringing things out."

Wilma Soss remained a vigorous champion of shareholder rights right up to her death, having attended an annual meeting just months before she died. In the arena of shareholder democracy, Soss found her life-time calling and her passion. She was queen of the corporate gadflies, and she enjoyed a long reign. $

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Jay Gould, the Union Pacific Railroad and Value Creation

By Maury Klein and Joseph Calandro, Jr.

During a recent financial history presentation, the name Jay Gould was mentioned. It was immediately followed by a discernable "gasp" from the audience. This apparently was the reaction the presenter was looking for as he proceeded to deride Gould's memory (Gould passed away in 1892). This presenter's criticisms were very broad and culminated with a reference to Gould as an "infamous speculator." The criticisms and comments were generally inaccurate, but nevertheless in accord with many of the things that were written about Gould during his lifetime, which have been carried over into the present.

No one in United States financial and business history is as misunderstood, and under-appreciated, as Jay Gould. There are a number of reasons for this: First and foremost, Gould earned a reputation as the most hated man in America. Two early episodes, the Erie Railroad War and Black Friday, when he conceived an audacious scheme to corner the nation's gold supply in 1869, did much to create the image of him as a ruthless, unprincipled Wall Street renegade who seemed always to skirt the letter of the law. Hardly anyone recognized the breadth of his talents or viewed him as anything more than a stock manipulator who played the game better than most.

Second, Gould was an intensely private man who did not speak with the press unless he wanted something specific out of such interactions. Predictably, his desired ends were not always what members of the press supposed; in other words, Gould used the press to achieve his ends, not to advance theirs.

Financier Jay Gould's control of the Union Pacific Railroad from 1874–1880 helped give rise to modern financial strategy.

Third, Gould was uncommonly successful in investment, speculation/trading *and* business due to a variety of strategic moves frequently so audacious and complex that few, if any, of his contemporaries understood what he was doing, or why. Moreover, Gould did not socialize with the elite of his day, preferring instead to spend his non-working hours with his family and his books. Over time, factors such as these resulted in an information vacuum. As the press, like nature, abhors a vacuum, information was generated to fill it whether it was factually accurate or not.

More important than historical misunderstanding for our purposes here are the lessons that can be learned from the years that Gould controlled the Union Pacific Railroad (UP). By "control" we mean set the direction of the firm rather than own a majority interest in it. To explain, Gould exercised control by dominating the UP governance structure as a major, albeit not majority, shareholder. His activities at the UP helped give rise to modern *financial strategy*, which is an integrated and interactive discipline encompassing strategy, investment, finance and operational management.

We profile our reasoning in this article noting that it is an all too brief profile. Maury Klein's biography demonstrates in detail how Gould's entry into the management of the floundering UP marked the beginning of his emergence as a businessman and economic developer of the first rank, who went on to create his own railroad system around the modest Missouri Pacific Railroad.

Few men embody that most cherished of American myths, the rags-to-riches saga, better than Jay Gould. Born in 1836 on a farm near Roxbury, New York, he inherited his father's passion for education. Small, frail and somewhat sickly, he hated farm work, but he worked to improve himself whenever an opportunity arose. Shortly before his 16th birthday he left home to work for a surveyor. Already he had learned to push his stamina to the limit and to master any skill that came his way. He taught himself surveying, wrote an impressive history of Delaware County and learned how to cultivate the confidence of those older than himself. He won the trust of a prominent tanner and at age 20 was sent into the woods of Pennsylvania to build and run a tannery from scratch. Despite his youth, older workers respected him well enough that the settlement was named Gouldsboro.

Tanning occupied him until 1860, when an unfortunate partnership with the prominent firm of Charles M. Leupp unraveled as Leupp succumbed to mental illness and committed suicide. At the age of 24, Gould turned his attention to Wall Street. Despite being an unknown outsider in a world where being an insider counted for nearly everything, he not only survived but gradually mastered the intricacies of finance. His fertile intellect seemed capable of absorbing everything it touched, and his capacity for growth seemed unlimited. Unlike many Wall Street denizens, his approach was quiet, subtle and self-deprecating. He learned well the art of being underestimated.

For seven years Gould gradually improved his fortunes in the shark-infested waters of 19th century Wall Street. The business style that emerged was an astringent one, as lean and compact as Gould himself. It was both stealthy and secretive, the silent running of a loner forging his own way through dangerous territory. He formed the habit of telling no one about an operation except those directly involved, and then only as much as he wanted them to know.

To this passion for secrecy he added a view of ethical and legal niceties that, at times, bordered on amorality, which was common at the time. In struggling to survive in an arena where no mercy was

wasted on those who failed, he learned its lessons well, showing himself willing to employ bribery and other shady tactics to gain his objective.

As an outsider who relied on trading as his only source of capital, Gould recognized the game of business for what it was at the time and played with few illusions or pretenses. He entered Wall Street on the eve of the Civil War, a time when the rules soon became unsettled and malleable amid the opportunities afforded by wartime. Since the Panic of 1857 a younger, brasher, more aggressive breed of brokers had come to dominate the Street, and Gould adapted quickly to their coarser form of financial combat. In time, he proved himself to be superior to them all.

Two episodes that became Wall Street legends catapulted Gould from obscurity to notoriety. During 1867 and 1868, he joined forces with Daniel Drew and Jim Fisk to outmaneuver Cornelius Vanderbilt in the "Erie War" that ended with Gould and Fisk in control of that railroad. In 1869, he conceived an audacious scheme to corner the nation's gold supply that culminated in the "Black Friday" panic on the Street. Together these episodes both enhanced and blackened Gould's reputation, elevating him to the status of one whose words and deeds were always to be watched and never to be trusted. From them also emerged the steady stream of abuse from the press that would do so much to shape his reputation in the coming years as the most hated man on Wall Street.

To a greater extent than anyone realized, that reputation was undeserved. Unlike many, if not most, Wall Street men (then and since), Gould lived a quiet, extremely private life unmarred by any form of personal excess. He shunned the trappings of high society, was devoted to his wife and six children, created an extensive personal library of books he actually read and loved flowers so much that he built the largest privately-owned greenhouse in the nation.

Contrary to the image of him as a lone wolf, he formed close associations with colleagues that lasted throughout his life and rarely worked any large operation alone. Collis Huntington, one of Gould's bitterest rivals, was not alone in praising Gould's reliability. I (Klein) quoted him as follows in my earlier biography of Gould: "I know there are many people who do not like him… I will say that I always found that he would do just as he agreed to do."

Having earned a formidable reputation as a speculator/trader on Wall Street, Gould longed above all else to excel as a businessman. From his first encounter with railroads he applied his uncanny grasp of finance to the problems posed by running a large enterprise. Even as the public dismissed the Erie War as a financial circus, Gould devised a competitive strategy so bold and original that it forced Commodore Vanderbilt to revise his handling of the New York Central Railroad. Confronted by Gould's policy of making alliances with other roads to outflank the New York Central, Vanderbilt abandoned his conservative approach and expanded his rail empire westward to Chicago and elsewhere. Gould lacked the financial resources to compete with Vanderbilt on this widened battlefield, but his daring changed the course of railroad history.

After being ousted from the Erie in 1872, Gould pursued his career on Wall Street while awaiting a suitable opportunity to take hold of another railroad. It came at the end of 1873, when Gould bought heavily into the UP. Part of the first transcontinental road completed in May 1869, the Union Pacific-Central Pacific remained the only rail line from the Missouri River to the Pacific Coast. Like the Erie, it was a grandiose, oversold property with a tarnished past tainted by the Credit Mobilier scandal of 1873 and a history of inept management that culminated in 1871 when Oliver Ames left the presidency. Tom Scott of the Pennsylvania Railroad gained control but left after a year. In 1872, Horace Clark, Vanderbilt's son-in-law, became president and the road seemed firmly connected to the Vanderbilt system. But Clark died suddenly in June 1873, leaving the road once again in managerial and financial limbo.

In winning the trust of the suspicious major stockholders of the UP, Gould promised that he would restore the road's financial credibility, improve its operations, formulate its strategy and boost its stock price. To their astonishment, he did all this and more. Within a year, having rescued its finances from the brink of disaster, he cleared up the floating debt and refunded its income bonds.

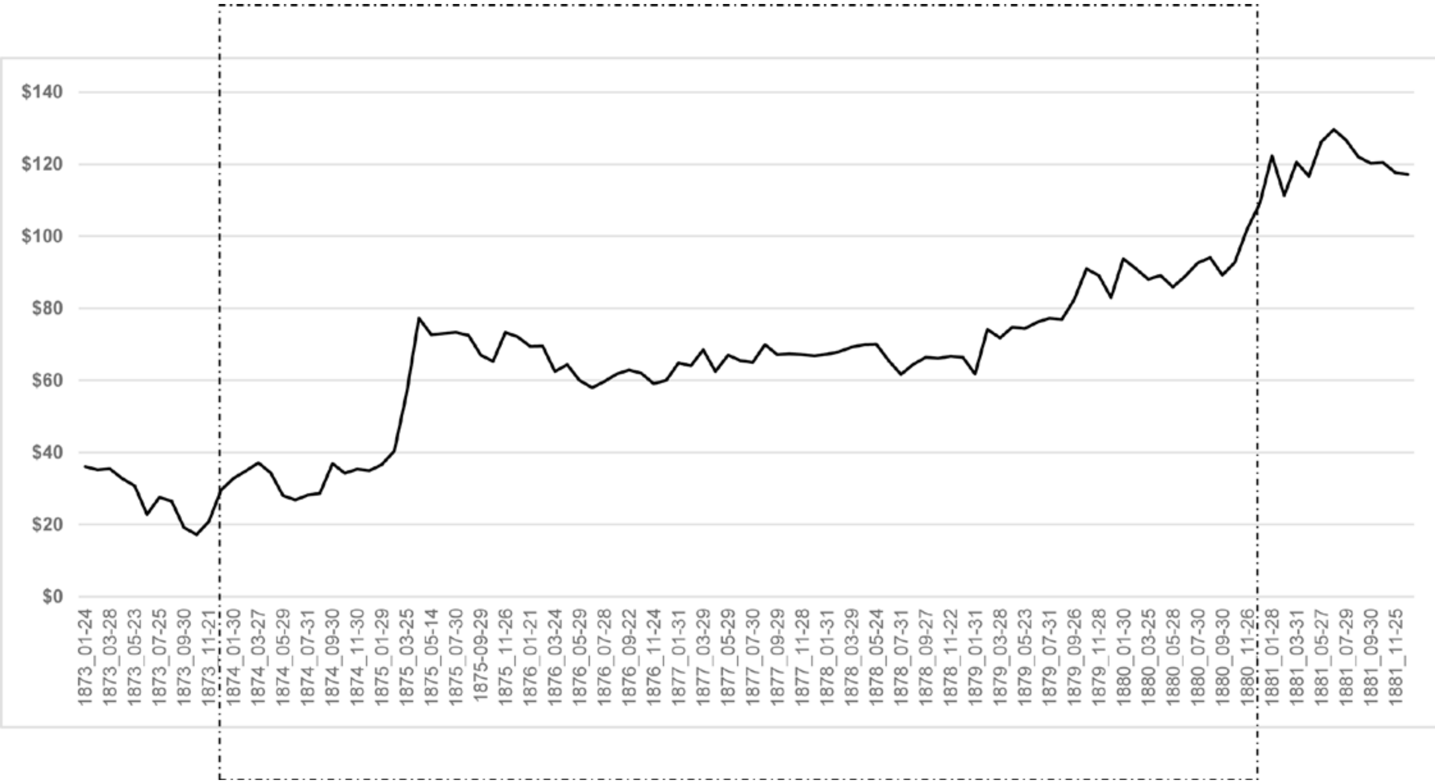
Observers had expected him to milk the UP for all it was worth and depart, leaving a financial wreck in his wake. Instead, he turned it into a stable, profitable enterprise through close attention to the details of every aspect of its operation. The former speculator/trader had become a successful businessman, and he remained one for the rest of his career.

Gould stayed with the UP for six years, leaving only when it became clear that he could not solve one financial albatross: the government debt. Contrary to popular belief, the government bonds issued to help construct the road were not a subsidy but a loan. To make matters worse, the UP was one of a very few railroads with a federal, rather than state, charter. This made it something of a plaything of Congress. The task of trying to reach a settlement on the debt with venal Congressmen taxed even Gould's patience. Through a series of brilliant maneuvers, he sold his UP shares. To illustrate the value creating impact of Gould's activities while he controlled the UP, consider Exhibit 1.

The compound annual growth rate of the UP's stock price from December 24, 1874 to December 24, 1880 (Jay Gould controlled the UP from 1874 to 1880) is 19%, which is impressive in-and-of-itself, but all the more so relative to the 7.5% compound annual growth rate (price-weighted) of the New York Stock Exchange over the same general time period. It is important to note that the US economy was both in a major depression and generally deflationary from October 1873 — following the infamous financial panic — to March 1879.

Gould used the proceeds from the sale of his UP stock to put together a new southwestern rail system built around the Missouri Pacific Railroad, which ran from St. Louis to Kansas City. This new system played a major role in the economic development of the Southwest. He stayed with that work, expanding the system and its territory through construction and acquisitions, until his death in 1892. During the 1880s he also gained control of two other major properties, Western Union and Manhattan Elevated. Domination of them put Gould astride the two most significant industries in late 19th century America: transportation and communications. That fact alone rendered him one of the most important business figures of his era.

Exhibit 1: Select UP Stock Prices from 1873 to 1881



Note: The data source for this graph is the *The Commercial and Financial Chronicle,* https://catalog.hathitrust.org/Record/000548353 for the years 1873–1881 (thanks to Bob Wright and Kristin Aguilera of the Museum of American Finance for referring us to this source). The dotted rectangle encloses the years that Jay Gould controlled the UP, i.e., 1874 to 1880. The chart illustrates one stock price for each month of the years profiled (every-other-month is labeled on the x-axis). No one consistent date is used, so the chart should only be considered representative of UP performance over the profiled timeframe.

To generate the kind of returns that Gould did at the UP — in a troubled economy no less — required a broad set of integrated skills. Modern financial strategy encompasses four disciplines: strategy, investment, finance and operational management. Gould excelled in each of them.

Strategy: Gould seemed hard-wired to be flexible when it came to strategy, switching gears quickly when a particular strategy did not prove itself and/or a better one presented itself. This approach was consistent with his speculating/trading background and, interestingly, it is also consistent with modern "complexity economics."

According to a popular book on that subject, *no* strategy is sustainable. Such a position necessarily "changes our definition of an excellent company from one that has continuous high performance for very long periods of time (an achievement that is almost non-existent) to one that can string together a series of temporary advantages over time." This quote summarizes well Gould's strategic success at the UP: he continually "strung together" strategic moves, each of which exhibited, more often than not, a positive net present value.

Investment: In addition to speculation/trading, Gould was an expert investor; in other words, he invested at price levels which, over time, increased in value. For example, his aforementioned gold speculation earned him a fair bit of notoriety, but his investment in the Erie Railroad was timed perfectly from both the buy- and sell-sides which, as one astute observer noted at the time, enabled him to invest in the UP at depressed price levels following the Panic of 1873. This powerfully enabled the generation of abnormal (or well in excess of market) returns.

Finance: Gould also exhibited a level of financial expertise that rivaled the top bankers of his day, especially the legendary J.P. Morgan. For example, and as noted above, the UP was debt-heavy when Gould assumed control of it, but he proposed to restore the credit and boost the earnings of a dishonored railroad in the teeth of a depression. Gould delivered what he promised, and he accomplished much of it within one year. He accomplished this through a combination of hard-nosed negotiation, innovative financial structuring (which included Gould assuming some of the debt himself) and leveraging the relationships across his wide financial network.

Operational Management: Gould was incredibly detail oriented as an operating executive, which is a trait that continues to define top performing executives. Like Gould, such executives demonstrate shorter-term expertise by generating revenue and tightly managing expenses, and in the longer-term through investment expertise by positioning their firms strategically to grow profitably over time. Moreover, these executives tend to have another trait in common, one described by legendary investor Phil Fisher as, "the general term of integrity and encompasses both the honesty and general decency of those who are » *continued on page 39*

SHADOW COURTS

The Tribunals that Rule Global Trade

Mandel Ngan

By Haley Sweetland Edwards

The environmental activist Jane Kleeb was driving down Highway 281 near Lincoln, Nebraska, on a gray day in January 2016, when she got a call from a reporter. At the time, Kleeb was still riding high off of her success organizing local farmers, ranchers and environmentalists in opposition to the Keystone XL Pipeline, which would have carried petroleum products from Canada's tar sands across the Nebraska plains to the Gulf of Mexico. Thanks to her and other activists' efforts, President Barack Obama had announced in November 2015 that his administration would deny the Canadian company TransCanada permission to move forward with the project, ending an eight-year-long effort to get the pipeline built.

The reporter was calling to ask Kleeb about a new twist in the saga. Earlier that day, TransCanada had announced it was suing the US government for $15 billion on the grounds that Obama's decision to block the project violated the North American Free Trade Agreement (NAFTA). It was the first Kleeb had heard of the suit. "I'm an organizer, so my reaction was, 'When are the hearings? Where is this happening? Who's the judge?'" she said recently. If TransCanada was challenging the decision in court, she wanted to be there. Could she protest on the courthouse steps? Arrange for a rally in a nearby town?

But that, Kleeb learned, was not how this case would go down. TransCanada wasn't suing the United States in a US court, or in a Canadian court for that matter. Its argument would not be heard by a judge, and the merits of the case would not be considered under the auspices of either country's legal system. There would be no protest on any courthouse steps. Instead, the case would be heard by a tribunal, manned by three private arbitrators, operating under a supranational legal system that Kleeb had never heard of. "It was totally strange," she said. "A foreign company can sue us in some secret tribunal? How is that even possible?"

Previous page: Demonstrators protesting against the Trans-Pacific Partnership (TPP) are seen on Pennsylvania Avenue, near the White House, on September 24, 2013.

Investor-state dispute settlement, or ISDS, first appeared in treaties in 1969. The idea behind the mechanism was straightforward: If a foreign investor believed that his host country — the nation where his company was operating — had violated an international treaty by seizing or destroying his factories, oil fields or other assets, he could file an ISDS claim directly against that country. He could do that without involving his own government and without having to wait endlessly for a developing country's corrupt or biased court system to dispense judgment.

By filing an ISDS claim, the investor would trigger the formation of a special arbitration tribunal, which would exist temporarily outside the jurisdiction of any nation's judiciary or any international body. Its sole purpose would be to determine how much, if anything, the country owed the investor in compensation for property that had been seized or demolished. For example, in the late 1980s, the Sri Lankan government destroyed a British seafood company's shrimp processing plant during a military raid on rebels. The British investor filed an ISDS claim, a tribunal was formed and the arbitrators determined that the Sri Lankan government must pay the company $460,000 in compensation for the destroyed plant. That was it. Case closed. The British company did not have to rely on Sri Lankan courts. The episode did not become a major diplomatic incident. The UK did not have to step in to defend its investors' interests.

And that was the whole point: ISDS was supposed to be a cool, efficient and apolitical dispute resolution system that kept powerful nations from interfering in the affairs of weaker countries, and that offered an extra layer of protection for foreign investors operating in countries with unreliable courts. But in the last 20 years, the mechanism has quietly changed, evolving into something much more powerful — and very political indeed.

One factor in this evolution is the explosion of new claims. Between the 1960s and 2000, ISDS was almost never used. Investors brought about 40 claims total in 40 years. Since 2000, there have been 647. In 2015 alone, there were 70 new cases. That uptick is partly because there are thousands more treaties today that include ISDS.

For the last 25 years, countries have signed thousands of bilateral investment treaties, and beginning in the 1990s, nearly every new trade agreement, from NAFTA and the Central American Free Trade Agreement to the Energy Charter, included a chapter on investment, complete with ISDS. In 1989, there were just a few hundred agreements that included ISDS. As of 2015, there were more than 3,000.

Another reason for the explosion of new claims is that the definition of what it means for a sovereign nation to seize or destroy a foreign company's property, or otherwise violate an investor's property rights under the terms of an investment treaty, has become much more expansive. Investors now regularly file claims if their host government passes a new law or regulation that results in even a partial loss of a company's property or impinges in some way on its future profits. For example, in TransCanada's ISDS claim against the United States, it argues that President Obama's decision to cancel the Keystone XL Pipeline violated NAFTA by expropriating the company's expected future profits.

That modern interpretation has only cropped up in the last 20 years, but it has opened up a vast new gray area. Where ISDS claims were once about seized oil fields and bulldozed factories, now they are about tax increases and environmental regulations. Where is the line between a government's right to regulate in the public interest and a foreign corporation's claim to its own property?

US trade negotiators are now working to include ISDS in as many new treaties as possible, including both of the massive new free trade deals coming down the pike. The Trans-Pacific Partnership (TPP), which President Obama signed in February 2016 and which Congress will likely ratify before he leaves office, already includes ISDS.

Whether the mechanism will be inserted into the Transatlantic Trade and Investment Partnership (TTIP), linking the United States and Europe, is a subject of controversy. The question has already catalyzed something of an intellectual civil

war in Europe, with the European Parliament recently rejecting, across party lines, any treaty that includes ISDS. Protesters opposed to it have swamped the streets in Berlin, Paris and Brussels and have written hundreds of letters in opposition to what they see as the imposition of shadowy "corporate courts" that can be used to undermine laws and regulations and compromise national sovereignty.

US trade negotiators say such rhetoric is overblown. They point out that the US is already a signatory to 50 agreements that include ISDS, and that foreign corporations have only ever used it to challenge Washington 18 times. The United States hasn't yet lost a case. But experts on both sides of the debate argue that those stats undersell the importance of ISDS. Including the mechanism in the TPP and TTIP would forever alter the global legal landscape for investors.

The United States' 50 existing treaties are relatively tiny, representing just 10% of the nation's foreign direct investment; including ISDS in the TPP would increase that ratio significantly. If ISDS is included in both of those trade deals, it would mean that any corporation headquartered in any of the nations that are signatories to either treaty — that includes the vast majority of companies listed under the Global *Fortune* 500 — could use the mechanism to challenge US laws and regulations outside of US courts, in the same way that TransCanada is today.

"I don't think the question is whether US laws will get challenged by foreign corporations under the TPP," Simon Lester, a trade expert at the libertarian Cato Institute, recently said. "It's pretty clear the US will be challenged, and it will lose some of those challenges and the US taxpayers will have to pay." $

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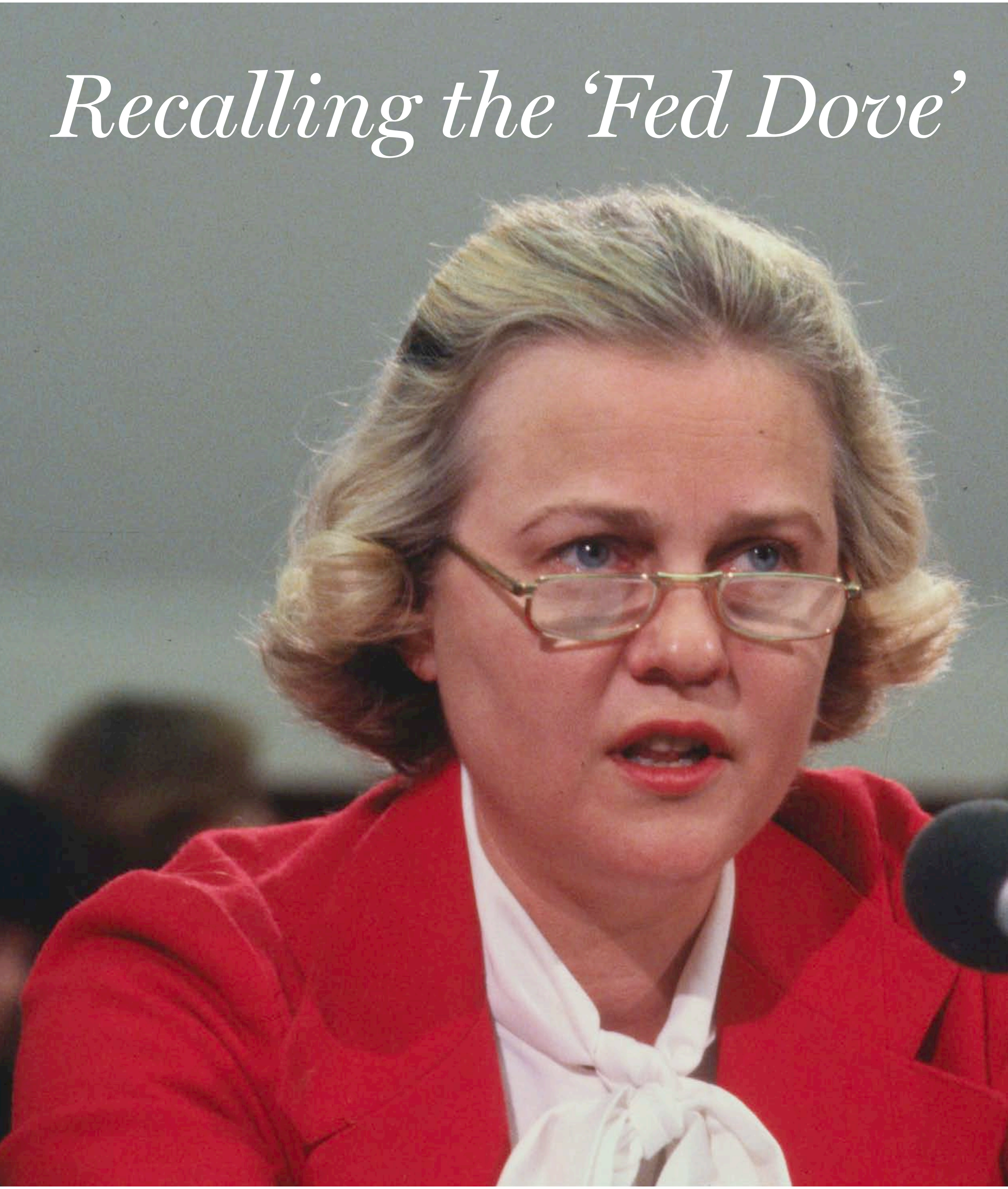
Recalling the 'Fed Dove'



Nancy Teeters, first female Fed governor, opposed high rates

By Gregory DL Morris

As the politically agonizing year of 2016 winds down, the debate over whether the Federal Reserve should raise interest rates—and, if so, by how much—was largely overshadowed by the bitter presidential race.

In dramatic contrast to the campaign for the White House, the long-running discussion about interest rates so far has been sharp but civil and substantive. It has shown how far the country's economy and economic understanding have advanced.

Most notably, the discussion is being led by the first woman to be chair of the Fed Board of Governors, Janet Yellen. The increase in question is a quarter point to a range of 0.5–0.75%; less than 40 years ago there was another initiative to increase rates by a quarter percent, but that was to 8%. It was opposed by the first woman to sit on the Fed's board, Nancy H. Teeters, and her advocacy earned her the title of "Fed Dove."

Teeters joined the board of governors of the Federal Reserve System on September 18, 1978. She was appointed by President Jimmy Carter and served until June 27, 1984.

According to her November 23, 2014 obituary in Bloomberg by Laurence Arnold, "Teeters was a lonely dissenting voice when, in her view, the war on inflation led by [Fed Chairman Paul] Volcker went too far." She protested as large banks raised their prime rates to 21.5% in December 1980 and warned that high interest rates would cause the US economy to contract.

"Because Fed dissents aren't disclosed to the public until minutes are released, often weeks after a meeting, the impact of Teeters' opposition was limited," Arnold wrote.

According to *Secrets of the Temple: How the Federal Reserve Runs the Country*, by William Greider (1989), Teeters's opposition to large interest-rate hikes were "discounted during the long recession because she was regarded as a 'knee-jerk liberal.'" She was "well known and respected as a

Nance Teeters, the first female governor of the Federal Reserve Board, tells the House Banking Committee on March 26, 1980 that the Fed is considering allowing credit card lenders to charge consumers higher interest rates on old debts if they make new purchases.

liberal economist, a disciple of John Maynard Keynes and the Keynesian principles that had guided the Democratic Party's economic policy" since the presidency of Franklin D. Roosevelt, Greider wrote.

The book recounts Teeters telling fellow board members, "You are pulling the financial fabric of this country so tight that it's going to rip. Once you tear a piece of fabric, it's very difficult, almost impossible, to put it back together again." She chose the metaphor purposely, she told Greider, in an effort to sound a real-world — and female — note rarely heard in those halls. "None of these guys has ever sewn anything in his life," she said.

As early as 1978, *The New York Times* called her, "a dove among the Fed's hawks." Indeed she was from the start. Teeters argued for a pause in rate hikes as soon as she was appointed. In one of her first acts, she voted against a move by Chairman G. William Miller to raise the discount rate 25 basis points to 8%. "It took a strong-willed governor to stand alone and repeatedly argue for a competing analysis," Greider wrote. "Nancy Teeters was one."

In his November 25, 2014 obituary of Teeters in *The New York Times*, Paul Vitello called her "a liberal economist who broke with tradition by openly criticizing decisions of fellow [Fed] board members that she felt hurt consumers and working people."

Vitello noted that, "while she agreed with the need to control inflation, which approached 14% in 1980, Teeters criticized Volcker and the board's majority for squeezing the money supply too tightly. By sending the prime rate to a record high of 21.5% in 1981, she warned, the Fed risked pushing the economy into a recession and leaving millions of people out of work."

"You don't need to go to 20 or 21% to restrain the monetary supply," Teeters told *The New York Times* in January 1981.

Her analysis proved correct, wrote Vitello. "But her dissent, first in internal meetings, then in public statements, did not succeed in changing the Fed's inflation policy. Teeters raised other issues as well. She was outspoken in her opposition to the spate of mergers and acquisitions, beginning in the early 1980s, which created the current system of too-big-to-fail superbanks."

Teeters was born Nancy Hays on July 29, 1930, in Marion, Indiana, the youngest of three children of Edgar and Mabel Hays, according to the *Times* obituary. "Her father was an unsuccessful oil speculator who had returned to his hometown in Indiana in the late 1920s to work as a paper box salesman. Her mother, a homemaker, tried to discourage Nancy, her only daughter and a top student, from attending college."

"With her father's support," the *Times* detailed, "she went to college anyway, graduating from Oberlin in 1952. After marrying a fellow student, Robert D. Teeters, they both went to the University of Michigan to pursue graduate studies — he in biology, she in economics. She earned a master's degree in economics in 1954 and continued her studies at Michigan until 1957, when the Teeterses moved to Washington, where they both had secured jobs. Mr. Teeters worked at the Interior Department." Along the way they raised three children: Ann, James and John.

According to her official Fed biography, Teeters's association with the Federal Reserve began in 1957, when she joined the Division of Research and Statistics at the board of governors. She was a staff economist in the division's government finance section until early 1966, taking leave from the Fed from 1962 to 1963 to serve as an economist on the Council of Economic Advisers for President John F. Kennedy.

Teeters then left her position at the board completely to become a fiscal economist with the Planning and Analysis staff of the Bureau of the Budget (which became the Office of Management and Budget), a role she held from 1966 to 1970.

She was a senior fellow at the Brookings Institution from 1970 to late 1973, when she became a senior specialist with the Congressional Research Service of the Library of Congress. Her publications include a series of studies, of which she was co-author, for Brookings on topics such as the US budget, Social Security taxation and employment. With Charles L. Schultze, Edward R. Fried and Alice M. Rivlin, she co-authored the 1971, 1972 and 1973 editions of the budget analysis, "Setting National Priorities."

From late 1974 until her appointment to the Fed, Teeters was assistant staff director and chief economist for the Committee on the Budget of the House of Representatives.

Not all of her initiatives were as clear-cut as her opposition to high rates. Towards the end of her time on the Fed board she led an effort to decelerate the availability of consumer credit, primarily as through the use of credit cards. Teeters "struggled with their questions and wound up saying that life is both confused and unfair," wrote *Times* business columnist Leonard Silk.

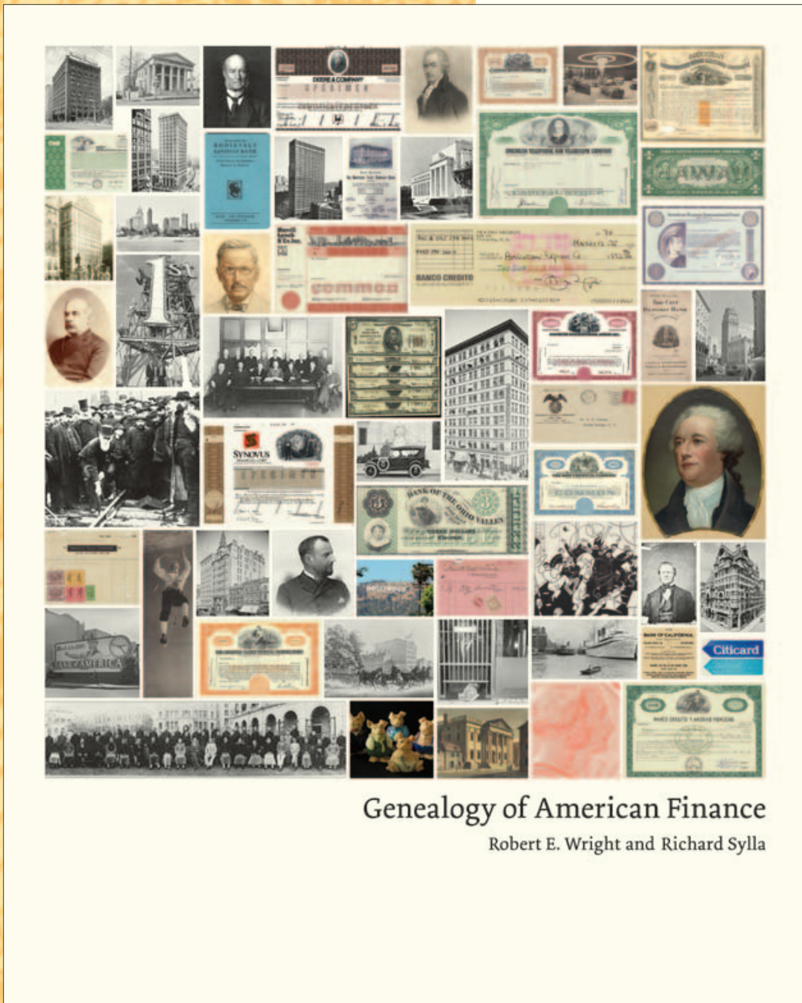
Teeters was quoted in a 1984 story in *The Washington Post*, "The perception was that we told people to stop using the credit cards. In fact, what we did was to tell the credit card issuers to not let the thing grow so fast." Many Americans, confused by the message, went so far as to return their cards to retailers, Teeters said, adding more broadly about her time on the board, "It's been fascinating and engrossing, but I guess I'm not going to miss it very much."

After leaving the Fed board, Teeters joined IBM as director of economics. In March 1986, she became the second woman to be named a vice president at IBM. She supervised the preparation of macroeconomic forecasting of US and foreign economies, as well as micro-economic forecasting for the entire computer industry. She retired from IBM in 1990 and the following year became an active director of Inland Steel Industries for several years.

It bears mentioning that alone among US integrated steel companies, Inland had survived as a going concern and was considered viable enough to be bought by an off-shore company, Ispat International, in 1997. Today it is part of the world's largest steel company, ArcelorMittal.

Teeters was a member of the advisory board of the Institute for the Study of Educational Policy at Howard University. She also was a member of the Committee on the Status of Women at the American Economic Association, a member of the board for the American Finance Association and president and member of the board of the National Economists Club. $

Gregory DL Morris is an independent business journalist, principal of Enterprise & Industry Historic Research (www.enterpriseandindustry.com) and an active member of the Museum's editorial board.



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Genealogy of American Finance

By Robert E. Wright
and Richard Sylla

Foreword by
Charles M. Royce

> "*Genealogy of American Finance* is a treasure trove of information on American banking and its history, in an unusual—and unusually useful—format."
>
> —*John Steele Gordon, author of* Empire of Wealth

An immersive history of 50 major American banks and their transformation of the nation into a leading world power.

In this gorgeously illustrated hardcover book—published by the Museum of American Finance and Columbia Business School Publishing—readers learn how 50 financial corporations came to dominate the US banking system, shaping the nation's political, social and economic growth along the way. A story that spans more than two centuries of war, crisis and exciting promise, this account reminds readers that American banking was never a fixed enterprise but has evolved in tandem with the fits and starts of the country. A key text for navigating the complex terrain of American finance, this volume draws a fascinating family tree for projecting the future of a nation.

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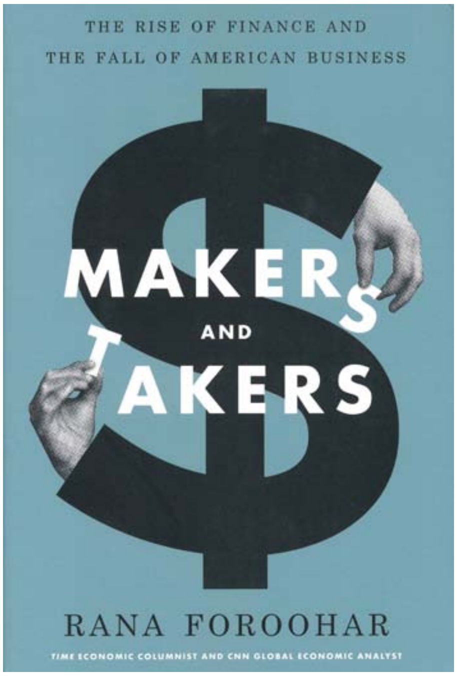
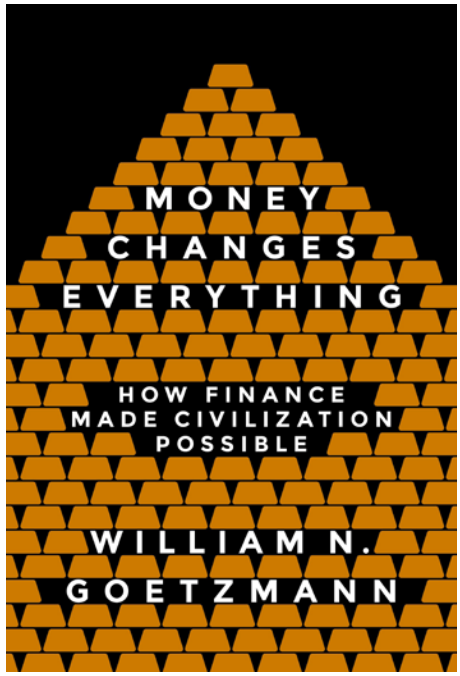


Makers and Takers: The Rise of Finance and the Fall of American Business

By Rana Foroohar
Penguin Random House, 2015
400 pages, $30.00



Money Changes Everything: How Finance Made Civilization Possible

By William Goetzmann
Princeton University Press, 2016
600 pages, $35.95

The subtitles tell the rationale for this joint review. *Makers and Takers* and *Money Changes Everything* give only slight hints about their respective books' contents. But you know what to expect after noting that Rana Foroohar will be describing "The Rise of Finance and the Fall of American Business." And you know where William Goetzmann is coming from as he discusses "How Finance Made Civilization Possible."

Both journalist Foroohar and Professor Goetzmann have produced fact-laden volumes they had been researching for more than 20 years. But can either justify their provocative subtitle? Both volumes offer thoughtful and credible commentary about historic events. And as is often the case, it is quite possible to learn a lot from the authors' narratives without necessarily agreeing with any of their sometimes controversial conclusions.

The key passages of *Makers and Takers* consist of long-time financial journalist Foroohar's description of the tremendous growth this country's financial sector has experienced during the past few decades. It's hard to argue with the statistics she cites to quantify that growth. Indeed, many writers have noted the increasing importance of the financial industry as measured by its share of the GDP, the quantity of its assets or the size of its employment base.

But this version of that growth acknowledges only in passing how many separate businesses comprise the complex financial segment of the domestic economy. In their own comments on the financialization of America, a few academic authors have disentangled the growth that has occurred across the multiple subcomponents of the separate securities, insurance and credit intermediation industries. For instance, those studies have noted the increased importance of household credit and the declining importance of commissions from stock trading. Further, the author doesn't seem to appreciate many decades-long evolutionary changes in our financial practices that have been shifting the importance and influence of finance since before she was born; these include the changing definitions of the money supply, the long-term growth of stock prices and the creation of new products and services for both households and institutions.

In documenting her view of the finance industry's recent outsized growth, Foroohar correctly implicates the controversial activities by proponents of shareholder value, the shadow banking system, financial derivatives and private equity. She accurately notes Corporate America's addition of financial engineering and other banking activities to its core manufacturing endeavors. But she makes the less persuasive arguments that Robert McNamara's statistical management techniques, various graduate schools' MBA programs and the democratization of the investment industry were also important miscreants. And she fails to acknowledge the historical evidence that the United States has experienced the growth of financialization in other time periods, especially the first two decades of the 20th century.

The book's most compelling chapters are not those making specific indictments of individual financial players, but the ones chronicling the revolving door between Wall Street and Washington, and the concomitant influence of lobbyists on the legislators who create both the laws and the regulatory schemes that frequently enable bad actors to persist in their destructive behavior. (One of the most surprising, yet generally acknowledged, findings in the analyses of the Great Recession was the range of financial activities that lay beyond the regulatory

reach of institutions supposedly created and operated to ensure the safety and stability of the financial system.)

Foroohar is not the first to blame the country's recent economic troubles on the successful efforts of this particular set of businesses to protect its profitability, or to chastise financial professionals for successfully traversing the connected worlds of business and government. To be fair, she acknowledges the skimpiness of her brief descriptions of five big ideas for restructuring the finance system to regain its role as a help — not a hindrance — to business and society.

As she hopes, *Makers and Takers* might indeed act as a useful starting point for encouraging a variety of stakeholders to begin assessing the finance industry's outsized role in our economy. But suggesting that many evolutionary developments, practices and employment patterns have been responsible for the "Fall of American Business" seems to be a stretch.

Whereas *Makers and Takers* comments largely on financial developments during the past couple of decades, *Money Changes Everything* begins its story of finance's contributions to society in ancient times, i.e. 3,600 BCE. Professor Goetzmann writes with an expertise not shared by many financial historians or most readers of *Financial History*; he was an art history major in college and actually participated in archeological excavations. He describes finance not as an abstract idea, but as an adaptable technology used by emerging civilizations and advanced economies alike to solve problems. Most of the text traces the actions of the Mesopotamians, Greeks, Romans, Chinese, Venetians, Belgians, et al. as they developed such now-familiar financial tools as paper money, interest-bearing notes, mortgages, government bonds, stock exchanges and private corporations to meet the specific needs of farmers, merchants, governments and investors.

The author groups his 29 densely-written chapters into bite-sized sections covering developments in three places (Ancient Near East, China and Europe) and one time period (The Modern Era). In each section he details the development of several financial tools and discusses their successes and failures. Certain critics have obviously not read some of his assessments about the ineffectiveness (or actual negative consequences) of some financial techniques. Goetzmann seems quite aware that specific financial innovations can open new possibilities for some parties while also acting as disruptive influences to others.

Some discussions of developments in ancient times and in faraway lands may not resonate with readers who lack the author's historical interest and perspective; even so, they should appreciate his explanatory summary comments that appear at the end of most chapters. The commentary on Roman finance in chapter seven seems more relatable. The reader with even a passing knowledge of the geographic breadth and longevity of Rome will recognize the elements of the financial infrastructure that Goetzmann believes sustained that empire/republic through many generations. Equally informative and familiar are sections in Part IV describing the ideas of Karl Marx and John Maynard Keynes, as well as sovereign debt, the Crash of 1929 and modern portfolio theory.

In Goetzmann's very brief concluding chapter, he affirms once again that some financial techniques contributed to civilization's most important achievements, while others created serious unintended problems. Similarities and differences in the conditions across time and space have led financial thinkers to devise both simple and complex solutions. Finance may or may not have "Made Civilization Possible." But it is hard to argue with Goetzmann's concluding sentence asserting that the "experience of five millennia of financial innovation suggests that finance and civilization will be forever intertwined." $

Michael A. Martorelli, CFA is a Director at Fairmount Partners in West Conshohocken, Pennsylvania, and a frequent contributor to Financial History. *He earned his MA in History from American Military University.*

Investment: A History

By Norton Reamer & Jesse Downing
Columbia Business School
Publishing, 2016
436 pages with notes, bibliography
and index
$35.00

The concept of "investment" probably started with the caveman or cavewoman who decided to take a day or two off from hunting with a rock to invent the spear. Today, we talk endlessly about investment—in people, relationships, education, time and emotion. How do we approach putting current resources to work for future benefit? It is human activity that goes on endlessly. It is motivated by the belief that tomorrow should be better than yesterday.

In *Investment: A History*, authors Norton Reamer and Jesse Downing, two money management professionals, acknowledge early on the difficulty in handling such a broad topic in a single book. To help frame the discussion, they set some parameters on their intended treatment. The book is a practical look at "financial investment," employing monetary rather than other resources.

Four guiding principles characterize its history: real ownership, where shareholders must act like they own the company; fundamental value, which separates investment from speculation; financial leverage, where credit can multiply or destroy investment; and resource allocation, where measuring the expected return on capital employed is a key factor in determining present allocation.

Having set out the scope of their analysis, Reamer and Downing begin on the banks of the Tigris and Euphrates with the ancient Mesopotamians. They describe a society where land, religion and taxes all came together to create a system where professional managers worked the land for fees or got to keep some part of the excess. Interestingly, most of this asset management in Mesopotamia, and later in Greece and Rome, was done by slaves—quite a difference from the super-rich hedge fund managers who are listed later in the book.

As commercial ambitions and surplus assets grew in the Middle Ages, the authors highlight how religious prohibition against loan interest became a source of investment friction. New structures had to be created and old attitudes had to change to allow capital to flow to the most productive investments. Trade expansion, the creation of the joint stock companies and trusts, sped the development of more specialized and active investment across borders.

As the narrative shifts to the last 150 years, the focus is placed on "democratization" of finances and investment. Larger pools of assets (insurance companies, charities, retirement plans) created even more surplus capital seeking even greater return. Investment moved from the activity of the few into an industry of the many. How has this changed the concept of investment, and how has society adapted to the change?

Preventing and punishing fraud is key to building investment confidence. This is familiar territory to readers of this magazine, and the authors recount some of the most notorious Ponzi schemes, market corners, market manipulation and insider trading scandals. Cyclical crises like credit and market bubbles or credit or banking recessions can have an even more chilling effect on investment. The book includes useful nutshells on how economic theories have been developed and employed to ameliorate the broader threats of systemic meltdowns.

As investment becomes more democratic and industrialized, investment professionals, too, have created theories to provide intellectual underpinnings to their approaches. Three of these are explained in detail: asset pricing, the valuing of risk and the development of measurement and performance tools. This is the heaviest part of the book—but well worth the effort.

To conclude the book, the authors bring us to some more recent developments. There is a discussion of investment product expansion. Alternative investments, such as hedge funds and private equity for more sophisticated market participants, and index funds for the more risk-averse, cost conscience consumer are explained.

Investment: A History combines characteristics of both a textbook and a popular history. There were some important topics that space made impossible to cover in more depth: Modern European and Asian approaches to the concept, the effect of war on financing and investment and the coming storm between retirement commitments and investment return realities.

"There's been far, far, far more money made by people in Wall Street through salesmanship abilities than through investment abilities," said Warren Buffett. And given the dramatic outflows from hedge funds recently, and the current chilly political climate for markets in general, the authors should get ready to update their worthy and useful book. $

Jim Prout is a lawyer and business consultant. He can be reached at jpprout@gmail.com.

Jay Gould

continued from page 27

running the company." Indeed, as an operator, Gould was remarkably non-dictatorial and humble. According to Klein's history of the UP:

> In meetings he [Jay Gould] never dominated discussion but let it drone on before expressing succinctly and precisely the point others had been groping for. He did not command or dictate but suggested politely. Far from being an imperious figure, he was content to dwell in the shadows and let others take credit. For a man consumed by ambition, he was strikingly unaffected by considerations of ego or vanity.

Expertise in each of the above disciplines was profiled on a standalone basis for explanatory purposes. However, in practice all of the disciplines work together, many times simultaneously, which adds a level of complexity to financial strategy that helps to explain why it is difficult, and rarely done well.

Despite its historical context, the above framework can provide insight into "activist investing," which is popular today. To explain, corporate executives who employ suboptimal strategies, allocate capital unwisely, manage their finances poorly (e.g., uneconomical stock buybacks) and/or run inefficient operations over time invite "activism," especially when their under-performance is followed by behavior such as "insider selling." Therefore, executives should generally not try to "outsmart" activist investors, as some business scholars have recommended, but rather manage their companies in accord with sound strategic, investment, financial and operational principles over time. For executives so inclined, the experiences of Jay Gould offer many valuable lessons. $

Maury Klein is Professor Emeritus *of Business History at the University of Rhode Island and the author of 18 books including* The Life and Legend of Jay Gould *and the official history of the Union Pacific Railroad. He won an Emmy award as co-writer of the 2013 documentary,* Railroad Man: The Life and Legend of Jay Gould.

Joseph Calandro, Jr., is Managing Director of a global consulting firm, Fellow of the Gabelli Center for Global Security Analysis at Fordham University and author of Applied Value Investing. *He is the corresponding author and can be contacted at: jtacalandro@yahoo.com*

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HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

TRIVIA QUIZ

By Bob Shabazian

1. On August 11, 2016, the three major stock market indices matched a record last reached in 1999. What was it?
2. What legislation, passed during the Depression era of the 1930s, separated commercial banking from investment banking?
3. Who was known as the "Financier of the American Revolution"?
4. What is a victory tax in the context of the Olympic Games?
5. Wells Fargo, the center of a recent banking scandal involving the opening of unauthorized accounts, acquired what major bank in 2009?
6. Ratification in 1913 of the 16th Amendment to the US Constitution gave Congress what power?
7. What companies have announced plans to merge that — if completed — would create the world's largest hotel company?
8. Nationally, women earned 72% of what men earned in 2015. What state had the lowest women's earning percentage?
9. What is the wage base cap on the Social Security employment tax?
10. What do Wells Fargo and American Express Co. historically have in common?

1. The Dow Jones Industrial Average, the S&P 500 Index and the Nasdaq Composite Index all closed at their all-time highs on the same day. **2.** The Glass-Steagall Act of 1933 (later repealed in 1999). **3.** Robert Morris **4.** A tax on the value of a medal won during the competition. If applied, the tax for winning a gold medal could be as high as $9,900. **5.** Wachovia Bank. **6.** The power to levy and collect a tax on income. **7.** Marriott International and Starwood Hotels & Resorts Worldwide. **8.** Wyoming, with 54.3%. **9.** $118,000 **10.** Henry Wells and William Fargo were involved in the founding of both companies.

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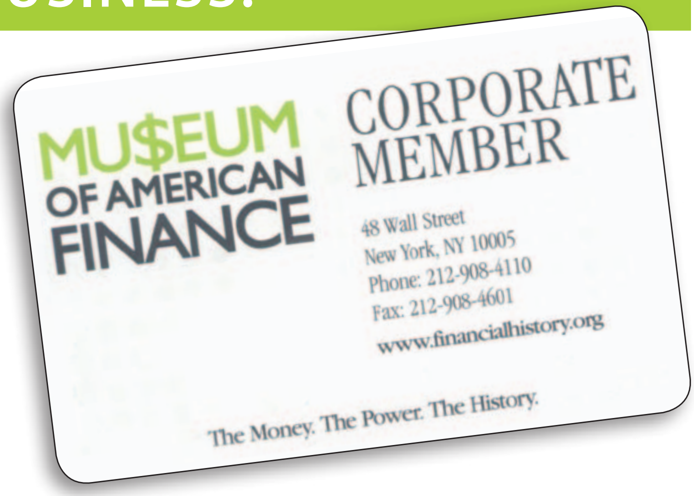

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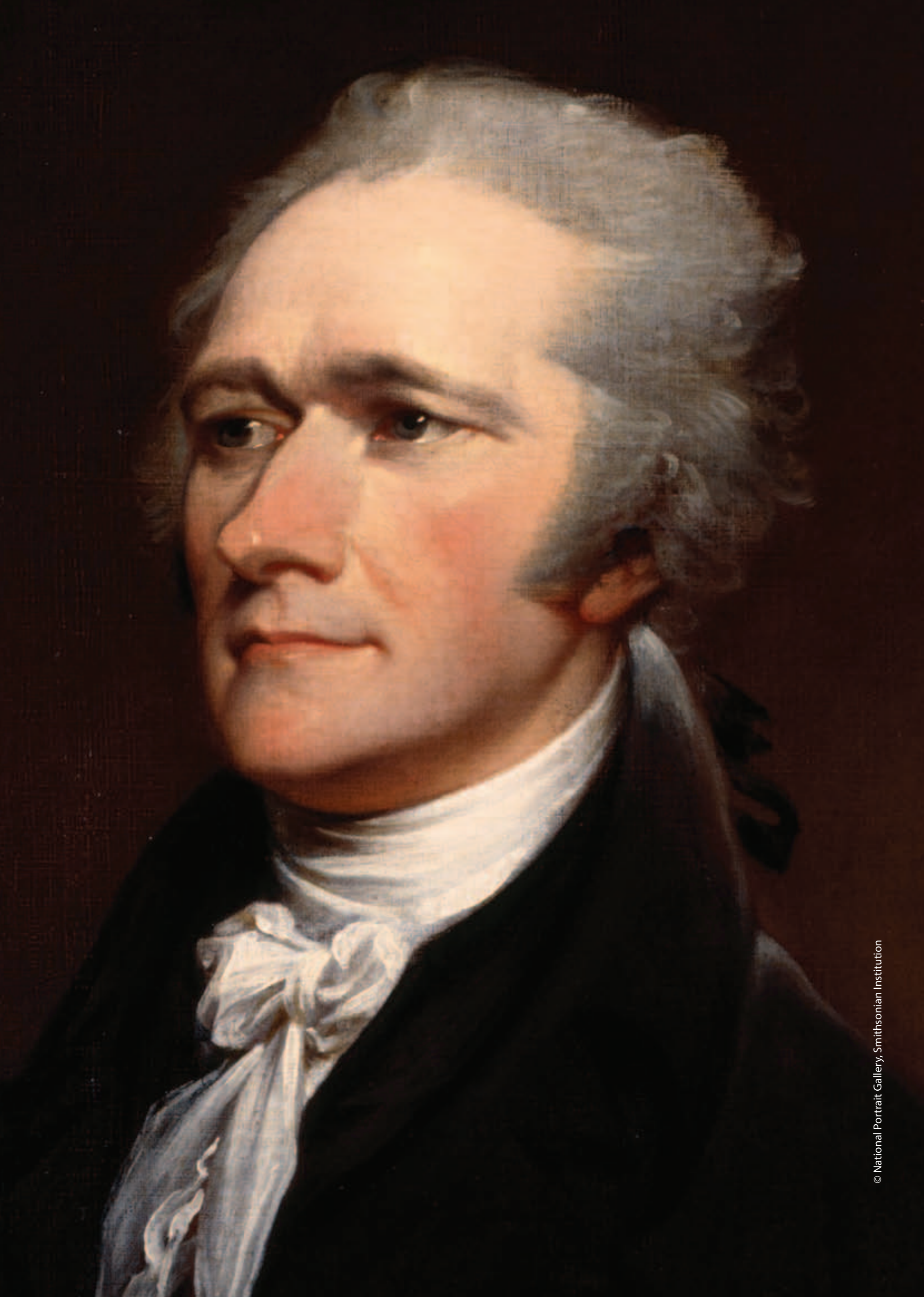

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